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World Financial Markets

Morgan Guaranty Trust Company of New York

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U.S. monetary policy shift: reasons and implications

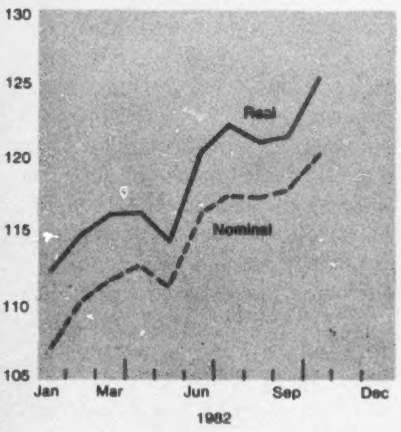
Amid all the pessimism about the world economy and the stability of the international financial system, the recent easing of monetary policies in the United States and other major industrial countries has been an important positive development. The move was led by the Federal Reserve, which lowered its discount rate by half of a percentage point to 9½% following the October meeting of the Federal Open Market Committee. Chairman Volcker announced that in coming months the Federal Reserve will attach much less weight to movements in M1, the money supply measure that for the past three years has been considered the principal target of U.S. monetary policy. Instead of relying on M1 the authorities will upgrade the importance of two broader aggregates, M2 and M3.

The Federal Reserve's heavy emphasis since October 1979 on controlling money supply growth was instrumental in reducing the rate of inflation and inflationary expectations and in reestablishing the credibility of the U.S. central bank. But, with inflation and real output decelerating much more rapidly than expected, the time had come to reassess whether monetary policy — particularly the target growth rates established for M1 in 1982 following the undershoot of M1 in 1981 — were more restrictive than intended.

Similarly, in 1981 the British authorities put aside their previous emphasis on a single monetary target. Despite overshooting of sterling M3 by wide margins, the economy was in severe difficulties, exacerbated by a grossly overvalued, albeit by then depreciating, exchange rate. Moreover, a protracted civil service dispute rendered the M3 figures substantially useless for short-term assessment. Instead, the exchange rate became a principal indicator and target of policy, backed by a range of monetary aggregates and by renewed sensitivity to inflation and real economic indicators. The more flexible British approach has not triggered acceleration of money supply and inflation. Nor would such flexibility in the United States be likely to rekindle inflationary pressures or fears.

The recent Federal Reserve actions have not weakened the dollar. On the contrary, it has reached a new all-time high on an effective basis, and it is now some 25%

Real and nominal effective dollar exchange rates
index numbers, 1975–79=100



Selected U.S. interest rates

in percent

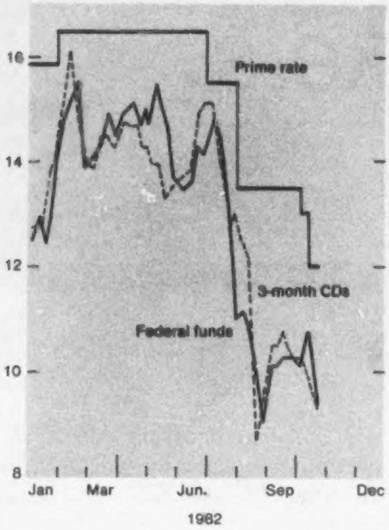


Table 1

*Short-term money markets rates**

in percent

	1982		
	end-June	*end-Sept.*	*latest*
United States	15.2	10.3	8.7
Canada	17.2	13.0	11.6
Japan	7.2	7.1	7.0
Belgium	15.8	13.0	12.8
France	14.9	13.8	13.2
Germany	9.4	8.0	7.2
Italy	20.4	18.5	18.8
Netherlands	8.9	7.9	6.8
United Kingdom	13.0	10.4	9.2

*Representative money market rates shown in key to statistical appendix.

Table 2

Central bank discount rates

in percent

	1982		
	end-June	*end-Sept.*	*latest*
United States	12.00	10.00	9.50
Canada	16.58	13.18	13.18
Japan	5.50	5.50	5.50
Austria	6.75	6.25	5.75
Belgium	14.00	13.00	12.50
France	9.50	9.50	9.50
Germany	7.50	7.00	6.00
Italy	19.00	18.00	18.00
Netherlands	8.00	7.00	6.00
United Kingdom	12.50	10.50	10.50

above its average level in the second half of the 1970s on a real effective basis (see chart). Some observers are surprised about the dollar's strength in the wake of declining nominal U.S. interest rates (see chart). In real terms, however, U.S. rates remain very high. The dollar's strength largely reflects confidence in U.S. economic policies and long-term prospects in relation to those of other industrial countries as indicated by sizable long-term capital flows into this country. It also stems from a better-than-expected performance of the U.S. current account, which, as measured, remains close to equilibrium. Exports of goods and, to an even greater degree, services are substantially underreported and are captured in the large statistical discrepancy of the U.S. balance of payments, which exceeded $25 billion last year.

In addition, the dollar has benefited from declines in foreign interest rates. European money market rates are now down by 1½-4 percentage points since June of this year, leaving short-term interest rate differentials still favoring the dollar (see Table 1). With unemployment in Europe at record levels and inflation decelerating, some European officials have become a bit more predisposed toward a strong dollar. German officials, in particular, feel more relaxed about the mark in relation to the dollar now that the former has strengthened against other European currencies and the yen and is once again back to its average level of the second half of the 1970s on a real effective basis (see accompanying article). Following the latest Federal Reserve actions, the German and Dutch central banks cut their discount rates by a full percentage point, and those of Belgium and Austria lowered theirs by half a percentage point (see Table 2).

Factors behind the Federal Reserve shift

For some time, the Federal Reserve has felt hamstrung by the commitment to a particular money supply target that had become increasingly less reliable as an indicator of monetary policy. The Federal Reserve has indicated that it would respond more flexibly this year than in the two preceding years to short-run — especially week-to-week — deviations in the money supply from the target ranges. It has stressed that such a posture is warranted in view of the difficulties that financial innovations, regulatory changes, and possible shifts in liquidity preference pose for measuring money and for interpreting fluctuations in such measures. With the proliferation of interest-bearing deposits with various checkable privileges and different degrees of "moneyness," it has become increasingly difficult to distinguish deposits that serve transactions purposes from those that do not.

In announcing the Federal Reserve's decision to downgrade M1 temporarily as an intermediate target, Chairman Volcker noted that some $33 billion in All Savers Certificates (which carried important tax privileges) were maturing in October and that the recently enacted Depository Institutions Act of 1982 permits new money-fund type accounts at banks and thrift institutions before year-end. As a result, M1 growth in the months ahead could be even more volatile than in the past, as individuals shift funds through their checking accounts, which are included in M1, among All Savers Certificates, money market funds, and the new deposit instruments, which are not. In contrast, M2 and M3, which include all of these instruments, will be relatively unaffected. Accordingly, it is felt that in present circumstances the broader aggregates are more appropriate indicators of and targets for monetary policy.

The Federal Reserve actions also reflected increasing recognition that the targets of 2½%-5½% established for M1 growth this year may have become too restrictive. This year's target range was based on the average level of M1 during the fourth quarter of 1981, which was below the lower end of last year's target range. If, instead, the midpoint of last year's target range had been used as the base level, M1 would now be well within target. Moreover, when this year's targets were announced, it was assumed that the velocity of M1 would grow at close to its trend rate of 3%-3½% per annum and that this would allow for nominal income growth of up to 8½%-9% (fourth quarter-to-fourth-quarter). Instead, velocity growth of M1 (and also M2) has been negative, and growth of nominal income has turned out to be much less than expected — less than 4% in the past four quarters.

Throughout this year, the Federal Reserve adjusted monetary policy gradually to offset the downward base drift of M1 and the unexpected movements of velocity. Early this year, it stated that it would be aiming for the upper end of the M1 target range, instead of the customary midpoint, and at the midyear review Chairman Volcker indicated that a modest overshoot of M1 would be acceptable. The latest decision to downgrade M1 temporarily as an indicator has increased the Federal Reserve's room to maneuver. The immediate effect was to enable the 7%-11% range for Federal funds established at the September FOMC meeting to be maintained despite the current bulge in M1. If M1 remains above this year's target range, it could also provide for a higher average level of M1 in 1983, since the base used to compute the 1983 targeted levels of money supply is the average level of balances in the current quarter.

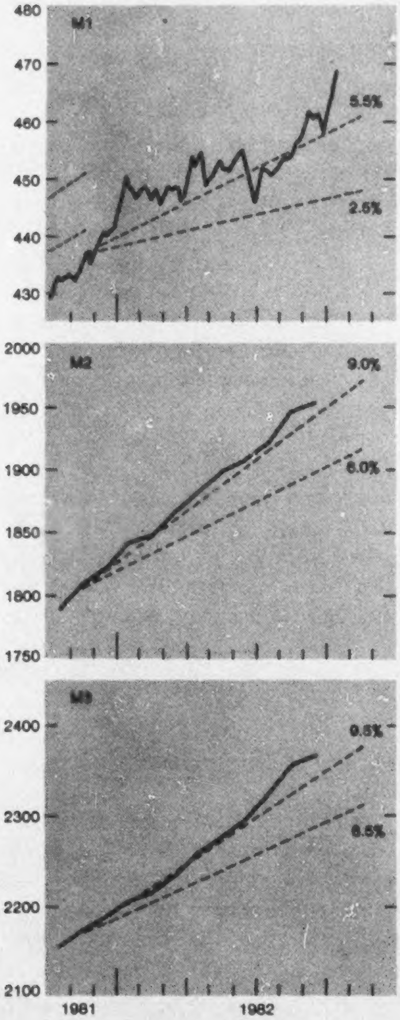
A third consideration behind the Federal Reserve's actions was the strong dollar and the potential adverse implications of continued dollar appreciation for the U.S. economy and international trade. A recent Federal Reserve Bank of New York study concludes that, all other things being equal, by the end of next year a 20% nominal appreciation of the dollar will result in a level of U.S. exports that is roughly $35 billion lower, and a level of U.S. imports that is about $10 billion higher, than would have prevailed in the absence of the dollar's appreciation. The implied net U.S. trade balance deterioration of $45 billion represents about 1.5% of GNP.

As noted earlier, the U.S. current account in 1982 is likely to be close to balance. However, during the coming year an eroding U.S. competitive position and a weak economic environment in the industrial countries and the developing countries could lead to significant U.S. current account deterioration and act as a further depressant on the economy. Should the dollar fail to respond to such a development, it could lead to increased trade frictions and protectionism. Relations with Japan, in particular, are at stake, with the yen on a real effective basis almost 20% below its average level in the second half of the 1970s.

Assessment of the Federal Reserve actions

The recent Federal Reserve moves were undertaken at a time of considerable uncertainty in financial markets about how the U.S. authorities would respond to an expected bulge in M1. While the discount rate cut and downgrading of M1 as a

U.S. money supply and target ranges
in billions of dollars



policy indicator have reduced fears that monetary policy will be tightened in the near term, there is still considerable debate about whether the latest actions signal an end of aggregate targeting, as some observers have contended.

The Federal Reserve clearly has been highly accommodative in supplying reserves in nonborrowed form to the banking system at a progressively lower Federal funds rate at a time when the principal measures of money supply are all above target (see chart). In the latest 13 weeks, for example, nonborrowed reserves increased at a 17% annual rate over the previous 13 weeks, and total reserves expanded at a 13% rate (see chart). By contrast, in early summer the Federal Reserve responded to an expected bulge in M1 by reducing nonborrowed reserves. Such action forced banks to satisfy their reserve requirements through increased borrowings at the discount window as the Federal funds rate increased sharply. In this respect, there has been an easing of monetary policy lately.

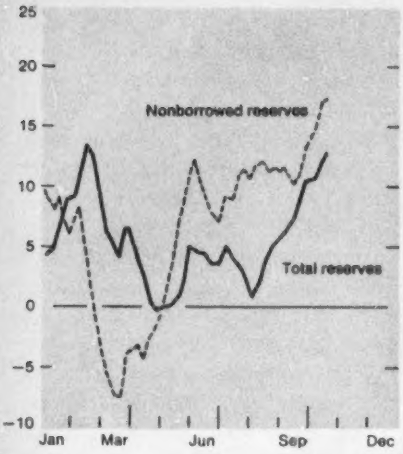
There is no sign, however, that monetary policy has become actively stimulative. Under the current reserve accounting procedures, required reserves are predetermined by the level of reservable deposits two weeks prior to the period of settlement. Consequently, any noticeable provision of reserves in excess of those required would be a clear signal that monetary policy has become overtly expansionary. As yet, excess reserves have not spurted abruptly. Moreover, borrowings from the discount window have not been actively encouraged. Discount rate cuts have followed reductions in the Federal funds rate and other money market rates, rather than leading them.

Similarly, there is little to indicate that the Federal Reserve has abandoned aggregate targeting altogether in favor of interest rate targeting. In announcing the decision to downgrade M1 as an indicator, Chairman Volcker pointed out the dangers of using interest rates as a target of monetary policy, especially in an environment in which there are diverse inflation expectations. Moreover, he stressed that the Federal Reserve will be placing greater emphasis in the future on the broader monetary aggregates. Since they are available only on a monthly basis, it is hoped that less attention will be focused on week-to-week movements in M1 and other available components of the broader aggregates.

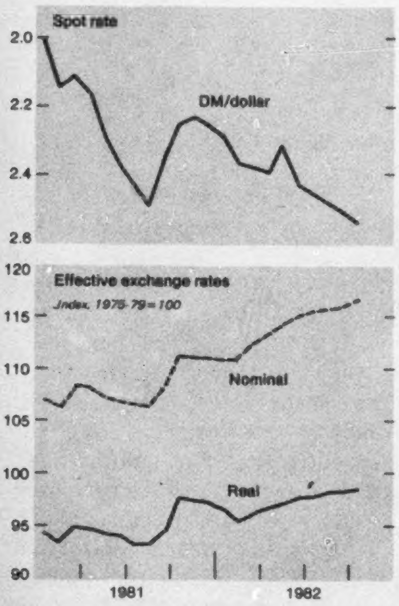
While both M2 and M3 currently are above the upper end of their respective target ranges, their growth has been slowing recently and is expected to continue to do so for a while longer partly as a result of the low growth of nominal income. The slowing also reflects the effects that a reduction of interest rates and, possibly, concerns about financial safety are having in moderating the growth of uninsured money market funds. More generally, lower interest rates can be expected to induce shifts from high-yielding deposits into lower-yielding and noninterest bearing deposits, implying a slowing in the growth of the broader aggregates.

Nevertheless, there does appear to be some basic rethinking about the need for greater flexibility in setting numerical targets for money supply growth during the transition period to an environment of lower inflation. The provisional money supply growth targets for 1983 are unchanged from those in 1982, but the Federal Reserve will be aiming for the midpoint of the targets instead of the upper range. They implicitly assume that economic recovery would be aided by a return to more normal velocity behavior.

Total and nonborrowed reserves
13-week growth rates in percent per annum



German mark
monthly averages except latest plotting



In past cycles, velocity tended to move pro-cyclically, with velocity growth accentuating nominal income growth in the upturn. Except in the 1975 recovery, such velocity behavior occurred in response to rises in nominal interest rates during economic expansions. However, it is questionable whether this will be the case in the next upturn if nominal interest rates recede further as a result of declining inflation expectations. The authorities, therefore, will have to watch very carefully how velocity responds to the transition to low inflation in assessing whether the stated money supply targets are appropriate. If velocity growth were to remain well below the historic trend, an upward adjustment of the 1983 money supply targets could be required to allow for economic recovery.

One factor that will restrain a more stimulative monetary policy is the substantial budget deficit overhang. Even with the passage last summer of the three-year $98 billion tax package, it is estimated that the *combined* budget deficit of the federal government (including off-budget items) for the 1983 fiscal year will rise to $160-$170 billion, some $30-$40 billion higher than in the past fiscal year. Deficits in subsequent years are expected to be even larger unless additional steps are taken, and they remain an impediment to a further reduction of long-term inflation expectations.

Even if these deficits are not monetized to any significant extent, they represent a sizable call on private domestic savings and could be a key obstacle to lower real interest rates. To ensure a further reduction of interest rates — especially long-term rates that are critical to business investment decisions — significant headway in reducing the prospective deficits must be made. As Congress returns following elections, it is particularly important that members seize the initiative in putting Social Security on a sound financial footing and that the Administration be prepared to compromise on defense spending.

Further action on the fiscal front is essential to maintain the gradual downward trend of interest rates that is vital for a noninflationary recovery and also to alleviate the external debt burden of the developing countries. With the non-OPEC LDCs facing a total external debt outstanding to banks alone approaching $300 billion, a substantial drop in the average level of interest rates from over 15% last year to about 10% would save $10-$15 billion in their interest payments alone. This would help cushion the impact of a significant slowdown in international lending now under way.

New German government policies and the mark

The change of government in Germany on October 1 resulted mainly from dissatisfaction with the country's economic performance. Unemployment, which has risen from under 3½% in 1980 to 7.3%, inadequate investment, ballooning government spending, and growing budget deficits have caused increasing public concern. It was disputes over the budget that led the Free Democrats to end their 13-year coalition with former Chancellor Schmidt's Social Democrats and form a new center-right coalition with Chancellor Kohl's Christian Democrats and their Bavarian allies, the Christian Social Union. New elections are expected next March, and major policy decisions may well be postponed until after that.

Despite these political developments, the improvement in Germany's current account over the

Table 3

Germany's current account trends
billions of dollars

	Annual averages			*Forecast*
	1969-73	*1974-78*	*1979-81*	*1982*
Trade balance (FOB-CIF)	6.3	17.1	9.8	22.0
of which:				
Energy	—2.4	—12.5	—30.7	—30.0
Food, raw materials	—8.9	—15.2	—20.8	—19.0
Manufactures	17.6	44.8	61.3	71.0
Trade balance (FOB-FOB)	8.2	20.4	15.2	26.0
Invisibles balance	—6.4	—14.1	—25.1	—26.0
of which:				
Services	—2.7	—6.6	—12.9	—14.0
Transfers	—3.7	—7.5	—12.2	—12.0
Current account balance	1.8	6.3	—9.9	0.0

Table 4

Germany's invisibles account
1979-81 average, billions of dollars

Total	—25.1
Services	—12.9
Transfers of which:	—12.2
Workers' remittances	—3.8
Other private	—1.7
Net European Communities	—2.5
*Direct aid**	—0.9
Other official	—3.3

*Including debt cancellations.

past two years, and the recent sharp fall in dollar interest rates, the mark has fluctuated in the 2.49-2.56 mark/dollar range since October 1. At its current rate of 2.56, it is 12% below its end-1981 level. But in contrast to their attitude last year, German officials do not appear especially concerned about the dollar's strength.

One reason for the more relaxed attitude is that fears about the inflationary impact of a strong dollar have been dampened by the fall in the prices of oil and other primary commodities and by the drop in mark prices of imports from other countries. Overall, German import prices in mark terms have barely risen this year.

At the same time, the dollar's strength helps preserve some cost competitiveness for Germany in the face of the mark's appreciation this year against most other major currencies. It is up 11% against the French franc, 7% against the Italian lira, 13% against the Belgian franc, 8% against the Swiss franc, and 11% against the yen. On a trade-weighted average basis the mark has appreciated by 5½%. Even on a real effective basis it is up 2½% since December 1981 and is close to its average level in the second half of the 1970s. Indeed, the mark is currently nearly 4% above its real effective level in 1972, the base period German officials regard as most appropriate for judging whether the mark is properly valued to ensure adequate price and cost competitiveness in world markets.

Further devaluations of European currencies could increase the competitive pressure on German industries. Sweden's recent 16% devaluation exceeded significantly what was needed to correct the country's adverse inflation differential, and others may be tempted to follow suit. Market operators suspect there may be a need for a similar, if smaller, move by the Danish krone, which could lead to a general realignment within the European Monetary System and further upvaluation of the mark.

German exports, which had been a principal area of strength in the economy earlier this year, have started to weaken. Export orders in July/August were down more than 12% in volume from their peak last winter, while export deliveries were down 3.2% in value and 5.7% in volume from the first half of 1982. The decline in value involved shipments worldwide: exports to EC countries were off 1.4%; to the United States, 3.3%; to other industrial countries, 2.7%; to Comecon countries, 1.1%; to non-OPEC LDCs, 7.8%; and to OPEC, the source of 1981's most vigorous run-up, 13.7%. Together with the continued slump in domestic demand, export weakness has produced a renewed downturn in the German economy, and real GNP for the year as a whole could be off 1%. Another result of export weakness is the leveling out of Germany's current account. After returning to a surplus in the fourth quarter of 1981, the current account slipped back to near-balance (seasonally adjusted) in the third quarter of 1982.

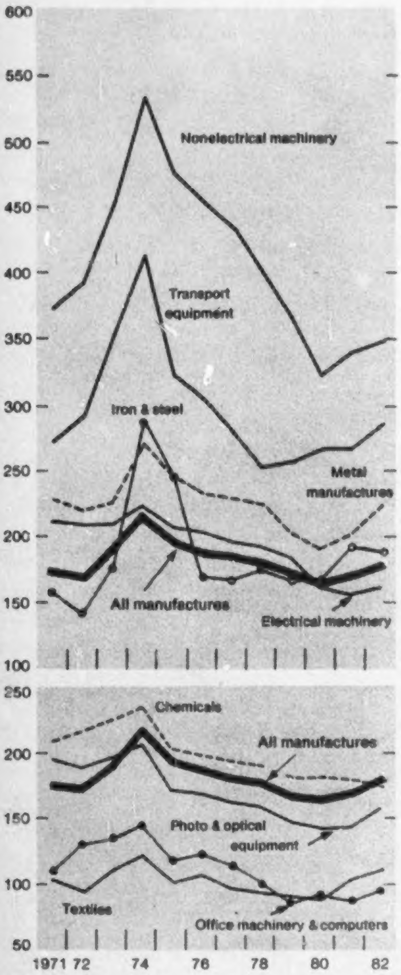
Limited current account improvement

The limited improvement of the current account reemphasizes certain structural weaknesses. The large deficits in all sectors but manufactures trade have not diminished between 1979-81 and 1982 (see Table 3). In mark terms they are larger. The manufactures improvement, which accounts for the full $10 billion current account gain between 1979-81 and 1982, is also far from secure.

The transfers deficit is projected at $12 billion, including a $4 billion

German industrial trade

exports as percent of imports



*First eight months.

outflow from repatriation of earnings by foreign workers in Germany, large and growing official transfer outflows of $2.5 billion to finance the European Communities' budget, and $1 billion of bilateral aid to developing countries (see Table 4). The total services deficit will be close to the $12½ billion of net overseas travel spending. However, there are also deficits in such other private services as transport, insurance, commissions, and licenses (representing technology); these are offset by the $4 billion of NATO spending in Germany (see Table 5). In addition to the invisibles outflow, deficits in the merchandise trade account for food and other raw materials and for energy are $20 billion and $30 billion, respectively.

The rebound in manufactures trade remains insecure because of its dependence on the low mark real exchange rate of 1981 (partly undone since then by appreciation), on the stagnation of imports, and on the performance of older industries. The export/import ratio in manufacturing is back to 177% in the first eight months of 1982 from its low point of 161% in 1980. It is just below the 178% achieved in 1978 — the last year of German current account surplus — but well below the peak levels of the mid-1970s (see chart). With the 1980-81 depreciation of the mark and the upsurge in shipments to OPEC, exports rebounded in 1981 and early 1982, when they were up 15% in volume over 18 months.

The manufactures trade improvement has also owed much to the restraining effect on import growth of the economic stagnation that has gripped Germany since early 1980. Now that world trade generally has moved into decline and the real effective mark exchange rate is again high, the export/import ratio is unlikely to improve further — and it could worsen.

The pattern of change by industry reveals a concentration of recent strength in older industries. The sectors that have done well — where the export/import ratio has returned to the 1978 level or above — include transport equipment (mainly cars and trucks), clothing and footwear, textiles, iron and steel, and metal manufactures. For the auto industry 1978 was the low point, with Volkswagen's U.S. start-up cutting exports of fully assembled cars. Recently, vehicle sales have been boosted by the surge of French imports. Textiles, iron and steel, and, to some extent, metal manufactures are older industries with relatively homogeneous products, where the price advantage from the low mark real exchange rate in 1981 was perhaps particularly important. In these industries, as in clothing and footwear, Germany's future prospects for growth can be only modest, set against more competitive supply from Japan and newly industrialized countries as well as the proliferation of import restraints in foreign markets.

In the two higher-technology industrial groups shown in the chart — office machinery and computers and photographic, scientific, and optical apparatus — the export/import ratios, already well below the German industrial average, have only just managed to return to the 1978 level despite rapidly growing world markets for these products. Meanwhile, in Germany's "medium-technology" industrial staples — chemicals, electrical, and nonelectrical machinery — export/import ratios in 1982 remain well below the 1978 level.

The roots of current account problems

To some extent, the deficits in services, transfers, food, and energy represent the workings of comparative advantage and disadvantage in the German economy and the country's lack of natural resources. But government policies have also contributed to the undue dependence on traditional manufacturing. The food deficit is exacerbated by the government's acquiescence to the European Communities' Common Agricultural Policy (CAP), which puts a protective tariff wall around European agriculture and maintains prices well above world market levels. Aside from raising the German food import bill needlessly and hence the general price level, the CAP accounts for the bulk of the $2½ billion transfers deficit with the EC.

Germany's lack of indigenous oil and gas is not being countered by vigorous exploration of the nonfossil alternatives, primarily nuclear power, because of obstruction from environmentalists. On the demand side, while there has been no attempt to shield consumers from higher energy prices, taxes on oil products have been low by European standards. Conservation has not proceeded as vigorously as it might have, and oil consumption has fallen less in relation to GNP than in Japan, France, and Britain.

The wide range of service deficits in Germany is in contrast with a preponderance of surpluses in the United States and the United Kingdom (see Table 5). Government policy needs to remove obstacles to the development of sophisticated modern service industries. In particular, the establishment of major international financial centers in Germany, dealing both in marks and Eurocurrencies, would permit greater depth and variety in the financial system, with a boost to service earnings such as has been enjoyed by the City of London, whose total net earnings excluding investment income is some $4½ billion a year.

Table 5

Services trade comparisons

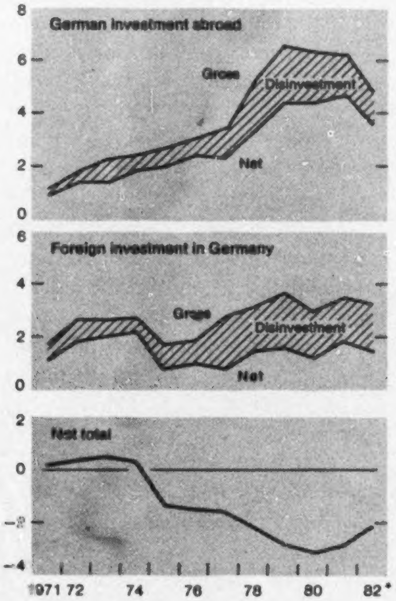
1979-81 average, billions of dollars

	Germany	U.S.	U.K.
Tourism	—12.5	—4.2	0.5
Transport	—0.8	0.6	0.9
Insurance	—0.4	0.2*	1.1
Commission fees, etc	—3.0	0.1*	—1.3
Personal services	—1.2	n.a.**	n.a.**
Licenses, patents	—0.8	6.0	0.4*
Government	4.2	—7.6*	—0.8
Investment income	1.0	31.4	1.1
Other services	0.6	8.5	7.8
Total	—12.9	35.0	9.7

*1979-80 only.
**Included in other services.

Direct investment

in billions of dollars



*First seven months at annual rate.

Investment climate

The most serious obstruction to the development of modern sectors of the economy has been a worsening of the investment climate. This has resulted from restrictions on management flexibility and the redeployment of labor, from "crowding-out" in financial markets by government deficits, and from the greater attractions of overseas investment. Net business investment — after allowance for replacement of depreciated assets — fell from 3½%-4% of GNP in 1964-73, before the first oil shock, to ½%-1% of GNP in 1974-81, and even less in 1982. Present levels of investment are hardly enough to preserve competitiveness in the existing productive capacity of the economy, let alone finance a shift into new, modern enterprises.

In the mid-1970s, 50% labor force representation on the supervisory boards of German companies — industrial "codetermination" — was extended from the coal and iron and steel industries to all sectors. Many industrialists claim that this is slowing the adjustment in existing industry by reducing management flexibility and speed of response to changed circumstances, particularly in the redeployment of labor. Against this, advocates of codetermination cite the experience of the 1950s when the labor forces in coal mining and iron and steel were drastically pruned and redeployed into the rapidly growing engineering and auto sectors. The redeployment of industrial capacity and labor needed now is much more complex and varied. Labor representatives in the management of older industries are slow to accept necessary closures and job losses. This problem was ameliorated in the mid-1970s by laying-off and returning home about a half million foreign guest-workers. But the two million now remaining have established positions and rights, and they are often doing jobs that others refuse to do.

A major reason for inadequate investment has been the shortage and high cost of funds for industry. With the customary flow of external finance originating in household savings increasingly preempted by budget deficits, resulting higher real interest rates have reined back business investment. Government current spending has risen from 32% of GNP in 1970 to 44% in 1981. Total government-sector outlays, including investment spending and subsidies to investment, have risen from 38% to 49% over the same period. Tax revenues were raised by less than government spending, so that government accounts swung from slight surplus in 1970 to a deficit of 4% of GNP in 1981.

The weakening of German industry during the 1970s and early 1980s has had an unfavorable effect on not only the current account but also overseas direct investment flows. The high valuation of the mark in the mid-to-late-1970s and the passage of the codetermination law contributed to a shift from net direct investment inflows through 1974 to net outflows since 1975 (see chart). The surge of German net investment abroad since the early 1970s has slackened only in 1982, no doubt discouraged by the high value of the dollar and poor growth in the United States and by the worsening prospects of the developing countries. Nevertheless, investments in the United States are still being sought because of the large market and positive business climate with fewer restrictions on profit opportunities. Foreigners' net direct investment in Germany declined sharply in the mid-1970s, and it has recovered only partly since then. It remains well down in real terms, reflecting an unfavorable assessment of the German business climate.

New policies and outlook

The new government has made reduction of the government deficit a welcome first priority in its economic policy. Significant cuts in social security benefits and postponement of cost-of-living increases should yield DM 5½ billion in savings in 1983 and reinforce the intended reduction in real current government consumption. In July 1983, the value-added tax is scheduled to be raised by 1%, although this is to be offset by some business tax reductions. The 1983 tax on high incomes, however, will be effectively raised 5% by an interest-free government assessment to be returned to the taxpayer before 1990. These measures could reduce the total government borrowing requirement, but the loss of tax revenue and increase of unemployment spending caused by the recession could render the reduction small.

The major force favoring Germany's international competitiveness will continue to be the low inflation rate. Now back below 5%, compared with about 8% for the average of its trading partners, German inflation could fall significantly further during the next 12 months. This excellent performance, however, should not be allowed to obscure the need for strong policy action to ensure rapid improvement in productivity and diversity in the real economy. Clearly the budget problem can be solved only with long-term budgetary discipline. This means further substantial spending cuts on a regular basis for some years, possibly backed up temporarily by tax hikes beyond next year's intended VAT increase to cut the deficit and reduce crowding-out of business borrowers in the financial markets. Meanwhile the correction of the current account imbalance through deflation has been taken as far as it can be. Cyclical adjustment now needs to give way to structural changes, with alterations in policy to improve labor mobility, encourage service and high technology industries, and reduce deficits in energy, food, and EC transfers.

Statistical appendix

for key to data in tables see pages 18 and 19.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Effective exchange rates

Index numbers, March 1973=100. The index of the effective exchange rate for a currency is a measure of that currency's trade-weighted average appreciation or depreciation vis-à-vis the currencies of 15 other major countries. The exchange rates used in the construction of this index are the averages of daily noon spot exchange rates in New York for months and for weeks ending on dates shown. The trade weights used are based on 1976 bilateral trade in manufactures.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
pre-June 1970 parities	118.5	94.9	79.3	116.2	91.6	97.5	110.9	95.9	98.2	88.3	97.8	97.9	98.1	102.2	92.2	98.4
Smithsonian central rates	107.0	101.3	88.7	116.0	95.4	96.1	108.3	97.0	99.1	91.6	98.0	96.0	96.3	100.5	91.7	98.1
1981																
November	107.6	84.7	121.1	76.9	137.2	82.8	46.1	106.2	118.8	187.7	122.4	87.5	106.2	81.5	82.2	63.7
December	107.7	84.9	123.9	77.7	137.0	82.4	46.0	104.9	118.8	186.4	122.0	86.4	107.7	81.3	81.2	63.2
1982																
January	109.2	84.6	121.5	78.0	137.0	81.9	45.9	104.6	118.7	186.2	122.2	85.6	107.8	81.4	80.8	63.2
February	112.3	83.5	117.6	78.5	136.8	81.8	45.9	102.0	118.8	186.8	121.9	84.5	108.8	81.6	80.7	63.3
March	114.1	83.3	115.6	78.0	139.1	81.9	45.6	95.8	120.6	190.0	122.4	83.1	109.6	81.9	80.1	61.9
April	115.2	83.2	115.0	77.5	140.4	81.6	45.2	95.1	120.3	185.0	123.1	82.9	110.0	81.8	80.3	61.8
May	113.6	82.3	117.2	77.4	141.6	82.3	45.2	95.7	120.7	180.9	123.6	84.1	109.2	81.4	79.3	62.1
June	118.8	80.2	112.9	78.5	142.0	78.9	45.0	95.4	121.6	178.1	123.8	82.5	110.1	81.9	80.2	61.4
July	119.9	80.7	112.1	78.8	142.6	76.8	45.1	95.6	122.0	179.7	124.1	82.0	108.8	82.0	79.3	61.1
August	119.8	82.5	110.9	78.9	142.8	76.5	45.0	95.3	122.8	179.6	124.3	81.7	104.2	82.7	77.3	61.2
September	120.4	83.3	109.7	79.2	143.2	75.8	45.0	94.8	123.6	179.1	124.6	81.3	102.0	82.6	76.4	61.4
October	121.8	83.9	107.3	79.9	144.2	76.0	44.7	94.5	124.9	179.6	125.4	83.3	102.0	73.7	76.5	61.1
September 3	119.6	83.0	111.2	78.9	142.8	76.0	45.0	95.3	123.5	179.7	124.4	81.5	104.2	82.9	76.4	61.2
10	119.8	83.1	110.9	79.2	143.3	75.5	45.0	95.3	123.6	179.5	124.6	80.7	101.6	82.8	76.4	61.4
17	120.5	83.3	109.8	79.1	143.1	75.5	45.0	95.1	123.8	179.5	124.6	80.9	101.4	82.7	76.3	61.3
24	120.3	83.7	109.3	79.1	143.3	75.7	45.0	94.7	123.7	178.9	123.7	81.6	101.6	82.5	76.3	61.5
October 1	121.4	83.5	107.9	79.1	143.2	75.6	45.0	94.2	123.9	178.3	124.5	81.6	102.0	82.7	76.5	61.4
8	121.9	83.4	107.1	79.5	143.5	75.6	44.9	94.1	124.3	178.6	124.5	81.9	101.6	80.4	76.5	61.3
15	120.9	84.0	109.0	80.2	144.7	76.1	44.7	94.5	125.0	181.2	125.5	83.5	101.1	70.9	76.3	61.4
22	121.6	84.2	107.5	80.1	144.5	76.2	44.5	94.6	125.1	180.1	125.8	84.2	102.4	70.7	76.4	60.9
29	122.7	84.3	105.7	79.8	144.3	76.1	44.5	94.8	125.4	178.8	125.9	84.1	102.8	70.8	76.7	60.8

Real effective exchange rates

Index numbers, March 1973=100. The index of the real effective exchange rate is the index of the effective exchange rate adjusted for inflation differentials which are measured by wholesale prices of nonfood manufactures. Exchange rates and trade weights used in the construction of this index are the same as those used for effective exchange rate indices. Annual figures are averages of months.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
1978	96.3	92.1	106.9	106.3	103.5	97.4	89.8	98.6	104.1	124.0	109.1	102.7	98.0	96.4	89.5	97.2
1979	96.3	92.1	95.7	118.4	103.9	98.9	93.0	95.8	100.5	116.8	107.6	100.7	92.6	99.0	88.2	109.0
1980	98.0	91.3	93.4	137.9	100.8	100.6	95.9	90.6	97.1	106.5	108.2	93.3	94.8	100.5	89.7	103.1
1981	108.7	91.4	94.3	140.9	96.6	98.9	91.2	85.0	93.1	105.5	106.1	89.1	99.2	101.3	98.9	97.6
1981																
November	109.4	92.8	91.4	133.8	98.8	98.0	89.1	84.2	94.7	115.0	106.3	90.4	99.5	95.3	100.9	97.5
December	109.3	93.1	93.3	135.2	98.6	97.6	89.4	83.7	94.1	113.9	106.0	89.7	100.2	95.3	99.5	97.8
1982																
January	110.8	92.8	90.5	135.9	98.1	97.3	89.7	82.7	95.5	112.4	106.3	87.6	102.2	96.7	99.7	98.5
February	113.2	92.0	87.4	136.7	97.1	98.5	90.5	80.5	95.4	112.2	106.0	86.6	103.5	97.6	101.0	99.1
March	114.4	92.3	85.7	135.6	98.1	98.4	90.1	77.5	96.3	114.[illegible]	107.3	85.8	102.9	98.2	101.1	97.8
April	114.8	92.9	85.1	134.8	98.5	99.0	89.5	77.1	96.0	111.0	107.7	86.2	103.9	98.1	101.8	98.4
May	112.8	92.1	86.4	134.4	99.0	100.7	89.7	78.0	96.1	108.6	107.9	86.8	103.5	97.7	101.1	99.7
June	118.6	89.4	82.5	136.3	99.9	96.4	88.9	77.6	96.6	107.1	107.3	86.3	103.2	97.7	102.6	99.1
July	120.5	89.3	81.3	137.0	99.9	94.3	89.3	77.6	96.5	107.4	107.6	85.9	101.9	98.3	102.0	99.2
August	120.5	90.8	80.4	137.1	99.9	93.8	90.2	77.2	96.8	107.2	107.4	86.1	97.8	98.9	99.6	100.4
September	120.1	92.7	79.3	137.7	100.1	93.1	89.8	77.1	97.5	107.3	107.3	86.3	96.0	98.8	99.2	101.7
October	122.7	92.5	76.8	138.8	100.7	93.7	89.1	76.7	98.2	107.3	107.7	88.7	95.4	88.0	99.5	101.7

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, and Singapore
billions of dollars (rounded to nearest $5 billion), at end of period

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	
										Mar[r]	Jun[p]
Estimated size											
Gross	315	395	485	595	740	950	1 235	1 525	1 860	1 930	1 900
Liabilities to nonbanks	55	80	90	115	145	190	260	345	440	455	n.a.
Liabilities to central banks	40	60	65	80	100	115	145	150	130	120	n.a.
Liabilities to other banks[a]	220	255	330	400	495	645	830	1 030	1 290	1 355	n.a.
Net	160	220	255	320	390	495	590	730	890	900	905
Claims on nonbanks	70	105	130	165	210	265	330	425	530	540	n.a.
Claims on central banks and on banks outside market area[b]	70	95	105	130	150	185	200	230	275	275	n.a.
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	20	25	30	45	60	75	85	85	n.a.
Eurodollars as % of gross liabilities in all Eurocurrencies	74	76	78	80	76	74	72	75	78	79	n.a.

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
Eurodollar:											
overnight	10.62	14.00	19.25	12.87	15.62	15.62	13.62	14.88	11.50	9.00	10.50
7-day fixed	10.62	14.00	19.75	13.00	15.37	15.25	14.00	15.38	11.75	9.25	10.50
one month	11.00	14.37	19.12	13.31	15.31	15.06	14.38	15.44	12.13	10.94	11.00
three months	11.69	14.44	17.55	13.75	15.37	14.94	14.38	15.81	13.06	11.88	11.44
six months	12.31	14.44	16.37	14.81	15.44	14.87	14.44	16.00	13.38	12.44	11.94
twelve months	12.00	12.87	14.87	14.75	15.31	14.63	14.44	16.00	14.06	12.87	12.19
Euromark:											
one month	3.19	8.50	8.87	10.44	9.13	9.00	8.56	8.87	8.87	8.12	7.62
three months	3.31	8.56	8.87	10.50	9.13	8.87	8.56	9.00	8.87	8.19	7.75
six months	3.69	8.56	8.87	10.56	9.13	8.81	8.56	9.12	9.12	8.44	7.94
twelve months	3.81	8.12	8.93	10.25	9.13	8.50	8.50	9.25	9.12	8.44	7.94
Euro-Swiss franc:											
one month	—.06	5.19	6.00	8.87	4.81	3.62	3.63	4.37	3.25	3.25	3.81
three months	0.00	5.75	6.00	9.25	5.50	4.31	4.25	5.06	4.25	4.00	4.37
six months	0.12	5.87	5.75	9.25	5.81	5.00	4.94	5.94	5.12	4.88	4.81
twelve months	0.62	5.56	5.50	8.50	6.13	5.37	5.06	6.00	5.12	4.94	4.81
Eurosterling:											
one month	12.00	16.75	14.75	15.37	13.50	13.50	13.37	13.00	11.88	11.00	10.88
three months	12.62	16.75	14.75	15.69	13.50	13.62	13.37	13.06	11.81	10.81	10.50
six months	13.25	16.75	14.25	15.69	13.56	13.62	13.37	13.06	11.81	10.81	10.50
twelve months	13.00	15.25	14.00	15.37	13.56	13.69	13.37	13.13	11.94	10.81	10.50
Euro-French franc:											
one month	10.50	13.87	11.12	15.75	29.00	21.50	29.50	15.50	14.75	21.00	16.25
three months	9.87	14.00	11.75	17.00	22.50	22.00	26.75	16.75	16.00	23.75	18.00
six months	9.87	14.12	12.25	18.00	20.50	21.75	23.75	18.00	17.37	22.75	19.00
twelve months	10.25	13.75	12.87	18.25	19.50	19.75	23.75	18.63	18.00	21.00	19.25
Euroyen:											
one month	—.69	7.32	9.12	6.12	6.75	6.87	7.06	7.25	6.69	7.06	7.00
three months	0.62	8.31	9.25	6.12	6.75	6.94	7.12	7.25	7.12	7.31	7.25
six months	1.87	8.62	9.62	6.87	6.81	6.94	7.12	7.31	7.38	7.44	7.50
twelve months	2.19	7.94	9.37	6.87	6.81	6.81	7.38	7.25	7.12	7.44	7.56

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1979	*1980*	*1981*	*1982*			*Jan-Oct*	
				Aug[r]	*Sep[r]*	*Oct[p]*	*1982*	*1981*
Industrial countries	**27 248**	**39 100**	**86 022**	**2 216**	**6 813**	**2 677**	**38 498**	**76 316**
Australia	941	2 475	1 680	26	398	310	4 296	849
Canada	1 845	1 743	4 112	—	1 000	443	3 778	3 990
Denmark	1 205	1 720	1 661	—	—	—	770	1 274
France	2 955	1 745	3 912	—	4 000	168	5 520	3 412
Greece	1 009	1 333	1 039	—	—	—	750	1 014
Ireland	687	237	1 361	20	—	27	401	832
Italy	3 708	6 268	6 030	205	306	120	3 002	5 006
Norway	935	685	713	900	120	—	1 769	427
Portugal	887	745	1 590	—	80	42	1 158	1 330
Spain	4 184	5 457	3 242	173	100	—	1 227	3 085
Sweden	1 263	1 370	1 867	—	—	—	425	1 565
United Kingdom	795	1 470	747	278	—	736	1 555	560
United States	2 348	6 719	54 784	235	375	655	5 611	50 116
Others[a]	4 486	7 133	3 284	381	434	176	8 036	2 856
Developing countries	**47 964**	**35 054**	**45 239**	**2 906**	**1 596**	**1 559**	**35 064**	**37 032**
Non-OPEC countries	35 411	24 009	33 369	1 240	1 240	746	23 977	27 699
Argentina	2 965	2 506	2 534	—	—	—	465	1 814
Brazil	6 278	4 158	5 751	389	401	515	4 818	4 720
Chile	867	1 322	2 204	80	4	—	889	2 044
Colombia	754	608	1 005	14	—	—	157	742
Korea	3 258	1 917	2 824	351	292	122	2 460	2 561
Malaysia	1 168	—	1 725	—	25	—	1 822	1 425
Mexico	8 243	5 971	7 530	—	—	3	7 488	6 550
Peru	596	480	1 407	—	175	—	1 029	1 107
Philippines	2 067	1 056	1 257	118	50	—	528	924
Taiwan	1 063	314	928	—	225	—	255	921
Other	8 152	5 677	6 204	288	68	106	4 066	4 891
OPEC countries	12 553	11 045	11 870	1 666	356	813	11 087	9 333
Ecuador	593	1 209	934	200	—	—	815	914
Indonesia	1 061	1 435	725	258	46	250	922	725
Nigeria	1 373	1 330	1 802	235	258	70	1 963	1 765
United Arab Emirates	401	101	363	—	—	—	93	363
Venezuela	6 830	6 715	7 559	823	52	493	6 328	5 349
Other	2 295	255	497	150	—	—	966	217
Communist countries	**7 325**	**2 809**	**1 791**	—	**38**	—	**672**	**1 371**
China	3 395	181	370	—	—	—	—	50
East Germany	796	303	470	—	8	—	8	470
Hungary	260	550	550	—	30	—	290	550
Poland	849	800	—	—	—	—	—	—
Other[b]	2 025	975	401	—	—	—	374	301
International organizations[c]	**275**	**429**	**302**	—	—	—	**150**	**70**
TOTAL	**82 812**	**77 392**	**133 354**	**5 122**	**8 447**	**4 236**	**74 384**	**114 789**

a includes multinational organizations *b* includes COMECON institutions *c* includes regional development organizations *p* preliminary
r revised

International bond yields

long-term issues, at or near end of month

	1978	*1979*	*1980*	*1981*	*1982*						
	Dec	*Dec*	*Dec*	*Dec*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*
U.S. companies:											
U.S. dollar	8.55	10.13	11.76	12.70	12.96	13.04	13.02	13.41	13.33	13.04	12.92
Swiss franc	5.70	6.61	7.27	7.30	7.26	7.40	7.40	7.66	7.53	7.64	7.92
European companies:											
U.S. dollar	9.21	10.93	12.42	14.29	14.07	13.99	13.88	14.12	14.15	13.81	13.73
German mark	6.84	7.55	8.79	9.36	8.74	8.38	8.23	8.35	8.26	8.32	8.24
Governments:											
U.S. dollar	9.12	10.66	11.83	13.59	13.44	13.59	13.50	13.77	13.78	13.41	13.30

New international bond issues

new issues in period, in millions of dollars

	1979	*1980*	*1981*	*1982*			*Jan-Oct*	
				Aug	*Sepr*	*Octp*	*1982*	*1981*
By type:								
Eurobonds, total	**18 728**	**23 970**	**31 616**	**2 138**	**3 725**	**3 892**	**43 574**	**22 774**
by category of borrower								
U.S. companies	2 872	4 107	6 178	1 176	1 428	659	11 970	4 308
Foreign companies	7 183	9 032	12 882	448	652	1 445	10 806	9 447
State enterprises	4 524	5 839	7 496	256	984	1 207	12 323	5 135
Governments	2 433	3 045	2 629	230	234	398	5 548	1 658
International organizations	1 714	1 947	2 431	28	427	183	2 927	2 226
by currency of denomination								
U.S. dollar	12 565	16 427	26 830	1 765	3 095	3 300	38 191	19 571
German mark	3 626	3 607	1 277	241	343	72	1 981	555
Dutch guilder	531	1 043	529	92	37	63	587	422
Canadian dollar	425	279	634	40	—	110	1 148	191
European composite units	253	65	309	—	130	70	467	237
Other	1 326	2 549	2 037	—	120	277	1 180	1 798
Foreign bonds outside the United States, total	**17 749**	**14 521**	**13 817**	**1 335**	**1 246**	**1 411**	**17 610**	**10 073**
by category of borrower								
U.S. companies	217	307	592	78	34	92	1 873	400
Foreign companies	3 463	3 157	3 384	223	267	312	3 473	2 777
State enterprises	3 284	2 830	3 701	470	450	296	4 759	2 564
Governments	7 663	4 086	2 762	96	148	291	3 224	1 969
International organizations	3 122	4 141	3 378	470	347	420	4 281	2 363
by currency of denomination								
German mark	5 379	4 839	1 310	79	117	207	2 490	818
Swiss franc	9 777	7 617	8 285	739	626	851	9 822	6 070
Dutch guilder	75	259	481	129	50	99	847	399
Japanese yen	1 833	1 088	2 457	250	296	183	2 992	1 911
Other	685	718	1 284	138	157	71	1 459	875
Foreign bonds in the United States, total	**4 515**	**3 429**	**7 552**	**1 655**	**700**	**450**	**5 747**	**5 112**
by category of borrower								
Canadian entities	2 193	2 136	4 630	825	100	100	3 281	3 599
International organizations	1 100	550	1 375	550	400	250	1 700	500
Other	1 222	743	1 547	280	200	100	766	1 013
By country of borrower:								
Industrial countries	**31 886**	**32 732**	**40 978**	**3 990**	**4 630**	**4 567**	**53 799**	**29 225**
Australia	593	539	991	—	455	130	2 055	345
Austria	1 218	1 859	1 557	177	—	105	1 629	1 264
Canada	4 197	3 797	10 648	1 210	685	821	11 473	7 605
Denmark	752	1 125	695	24	74	67	962	461
Finland	699	392	672	119	—	126	714	428
France	2 106	2 820	3 156	313	477	661	6 695	2 516
Italy	338	904	1 108	20	20	18	1 017	733
Japan	5 775	5 309	6 928	346	682	522	6 559	5 279
Netherlands	832	1 585	630	28	18	309	770	441
New Zealand	553	293	1 107	—	139	106	983	868
Norway	1 955	892	530	190	93	200	782	435
Sweden	1 530	3 244	2 050	46	186	100	1 962	1 320
United Kingdom	1 181	1 733	1 408	—	200	273	785	839
United States	6 767	5 587	6 770	1 252	1 462	751	13 843	4 708
Developing countries	**3 093**	**2 485**	**4 769**	**90**	**67**	**333**	**4 359**	**3 595**
Non-OPEC countries	2 675	1 942	4 338	90	30	208	3 369	3 259
Brazil	930	349	60	—	—	18	91	60
Korea	44	68	323	—	30	20	142	283
Mexico	363	544	3 012	30	—	—	1 919	2 328
OPEC countries	418	543	431	—	37	125	990	336
Venezuela	55	398	291	—	—	—	385	221
Communist countries	**75**	**65**	**75**	**—**	**—**	**—**	**65**	**50**
International organizations	**5 936**	**6 638**	**7 163**	**1 048**	**974**	**853**	**8 708**	**5 089**
TOTAL	**40 990**	**41 920**	**52 985**	**5 128**	**5 671**	**5 753**	**66 931**	**37 959**

Central bank discount rates

	1978	1979	1980	1981	1982			Current	
	end Dec	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	Oct 29 1982	effective since
United States	9.50	12.00	13.00	12.00	12.00	12.00	10.00	9.50	Oct 8, 82
Canada	10.75	14.00	17.36	14.66	15.11	16.58	12.98	11.46	Oct 28, 82
Japan	3.50	6.25	7.25	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	12.50	17.00	14.00	14.37	13.00	12.50	10.00	9.50	Oct 12, 82
Belgium	6.00	10.50	12.00	15.00	13.00	14.00	13.00	12.50	Oct 21, 82
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	3.00	0.00	7.50	7.50	7.50	7.50	7.00	6.00	Oct 22, 82
Italy	10.50	15.00	16.50	19.00	19.00	19.00	18.00	18.00	Aug 24, 82
Netherlands	6.50	9.50	8.00	9.00	8.00	8.00	7.00	6.00	Oct 22, 82
Austria	4.50	3.75	6.75	6.75	6.75	6.75	6.25	5.75	Oct 22, 82
Denmark	8.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	Oct 27, 80
Finland	7.25	8.50	9.25	9.25	9.25	8.50	8.50	8.50	Jun 1, 82
Ireland	11.85	16.40	12.75	17.15	18.30	18.30	18.30	14.55	Oct 1, 82
Norway	7.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	Nov 30, 79
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	6.50	9.00	12.00	11.00	10.00	10.00	10.00	10.00	Mar 10, 82
Switzerland	1.00	2.00	3.00	6.00	5.50	5.50	5.00	5.00	Aug 27, 82
Argentina	108.19	89.90	87.01	98.50	99.87	87.23	128.54	128.54	Sep 30, 82
Korea	14.50	14.50	15.50	10.50	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	10.50	13.00	14.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Map 19, 78
Singapore	4.50	6.75	10.50	9.50	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	8.50	7.00	7.00	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	7.50	11.00	13.00	14.00	14.00	14.00	14.00	14.00	Aug 26, 81

Day-to-day money rates

monthly averages

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	10.03	13.78	18.90	12.37	14.68	14.94	14.45	14.15	12.59	10.12	10.20
Canada	9.44	13.83	15.61	14.53	14.98	14.81	15.22	15.55	16.16	15.03	13.58
Japan	4.57	6.02	9.49	6.70	6.68	7.16	7.17	7.19	7.19	7.18	7.08
Australia	8.40	7.84	9.51	12.84	15.17	16.39	15.51	15.01	13.39	15.09	13.23
United Kingdom	10.00	14.87	13.00	9.13	12.19	9.13	9.13	8.31	10.10	9.75	9.80
Belgium	6.73	10.65	9.68	12.78	10.27	12.77	12.95	11.68	13.13	11.76	10.52
France	6.67	12.17	10.87	15.46	15.72	16.81	16.41	15.98	15.05	14.58	14.11
Germany	3.61	9.15	9.13	10.65	9.84	9.47	9.08	9.00	9.03	8.74	7.96
Italy	11.00	16.00	17.50	20.63	20.38	20.50	20.50	20.41	20.13	19.69	n.a.
Netherlands	10.00	15.67	8.37	10.67	7.50	7.94	8.87	7.63	8.94	8.63	7.33
Austria	5.37	8.50	11.50	7.50	8.75	9.50	9.75	9.62	10.50	9.25	7.75
Finland	9.29	13.53	12.50	11.30	11.56	11.50	11.50	11.50	11.50	11.50	11.45
Ireland	12.12	16.88	13.31	16.88	20.25	18.75	19.25	18.94	18.25	15.62	16.00
Spain	16.75	9.61	16.74	18.73	15.19	12.42	17.84	22.34	17.29	13.96	13.78
Sweden	6.26	11.99	11.41	13.82	13.70	13.15	13.99	14.65	14.98	14.47	15.22
Switzerland	0.00	1.25	5.75	3.36	2.80	2.75	1.25	1.50	1.50	1.50	2.25
Argentina	n.a.	78.22	70.84	84.93	107.53	136.67	91.51	74.82	80.72	101.34	127.09
Brazil	42.08	37.51	62.71	103.74	103.97	91.64	99.86	99.86	104.43	130.32	108.40
Hong Kong	9.67	14.19	14.05	10.75	15.27	15.07	14.75	13.50	11.75	8.25	9.37
Korea	15.00	15.00	14.82	14.40	11.86	12.00	12.00	13.35	13.39	13.23	13.39
Philippines	13.22	16.25	15.70	14.70	12.00	13.39	14.63	11.37	8.20	10.56	n.a.
Singapore	4.98	10.17	10.23	3.96	7.68	9.63	9.63	6.39	6.44	7.56	n.a.
South Africa	7.11	3.81	5.60	12.34	14.29	14.20	14.36	14.62	14.94	14.72	14.85
Eurodollars	10.80	14.41	19.22	12.29	14.76	14.88	14.63	14.13	12.57	10.10	10.52

Treasury bill rates

bond-equivalent yields, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	9.42	12.39	14.87	11.90	13.53	12.88	12.00	13.15	10.63	8.01	7.64
Canada	10.46	13.66	17.01	14.41	14.86	14.98	15.18	16.33	15.25	13.70	12.73
Japan	3.39	5.68	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	8.35	9.31	12.17	13.27	16.73	19.29	14.86	15.47	14.61	14.43	11.62
United Kingdom	12.01	16.45	13.45	15.31	12.97	13.37	13.17	12.70	11.58	10.26	9.99
Belgium	9.25	14.40	12.75	16.00	14.50	15.00	15.00	15.75	14.50	13.75	12.75
Ireland	11.83	16.37	12.84	17.35	18.32	18.28	18.25	18.05	16.76	14.64	14.48
Italy	12.81	15.62	16.87	21.36	19.70	19.81	20.05	19.29	19.27	19.01	17.72
Netherlands	9.50	12.75	8.00	9.75	7.00	8.88	8.75	8.19	8.75	7.38	7.00
Spain	13.00	15.00	17.20	15.83	14.34	14.89	16.09	16.57	16.49	15.53	15.15
Sweden	5.84	9.74	12.87	9.20	9.22	9.22	9.22	9.22	10.25	10.25	10.26
Argentina	82.55	71.04	66.19	77.10	82.55	93.45	56.00	53.46	108.31	133.36	133.36
Brazil	49.96	31.68	110.60	110.21	113.53	115.56	110.52	112.91	122.71	131.87	135.53
Korea	17.01	19.53	16.35	16.00	14.40	14.40	14.40	14.40	14.40	14.40	14.40
Mexico	12.75	17.89	27.73	33.22	35.16	38.48	n.a.	n.a.	53.81	n.a.	n.a.
New Zealand	10.50	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
Philippines	12.08	12.63	12.74	13.40	14.15	14.19	14.64	14.75	14.87	14.18	n.a.
Singapore	4.01	6.18	6.77	3.03	3.03	3.50	3.93	3.93	3.62	3.30	n.a.
South Africa	7.61	4.30	6.31	14.55	16.49	16.45	16.57	17.06	17.12	16.91	16.12

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	10.57	13.70	17.62	12.78	14.24	14.24	13.58	15.19	11.98	9.61	10.26
Canada	10.62	14.15	17.50	15.25	16.15	15.45	15.90	17.20	15.70	14.20	12.95
Japan	4.64	8.01	9.80	6.30	6.42	6.67	7.08	7.19	7.02	7.22	7.05
Australia	9.10	10.30	13.00	16.00	20.50	22.00	18.25	19.10	16.95	17.00	14.10
United Kingdom	12.50	17.00	14.75	15.69	13.56	13.62	13.44	13.00	11.94	10.75	10.56
Belgium	9.25	14.45	13.10	16.00	14.25	15.00	14.75	15.75	14.75	13.90	13.00
France	6.44	12.62	11.56	15.25	15.87	16.63	16.13	14.87	14.87	14.38	13.81
Germany	3.70	8.70	10.20	10.50	9.50	9.15	9.15	9.40	9.30	8.30	8.00
Ireland	13.00	18.12	13.63	18.50	20.50	20.00	20.00	19.88	17.50	15.62	15.38
Italy	11.37	17.12	17.37	21.00	20.62	20.50	20.50	20.38	20.00	18.75	18.50
Netherlands	10.50	13.00	9.37	11.00	8.25	8.25	8.75	8.87	9.12	8.13	8.00
Spain	22.80	13.20	17.40	15.52	13.56	14.61	15.62	18.02	17.32	15.13	13.91
Switzerland	0.50	6.12	7.50	10.12	6.00	4.75	4.38	5.12	4.37	4.00	4.62
Hong Kong	11.82	14.37	17.69	14.18	15.13	15.13	14.75	14.25	12.75	10.75	10.00
Korea	17.01	19.53	16.35	15.69	14.56	12.00	12.50	8.00	8.00	8.00	8.00
New Zealand	12.00	16.00	14.25	16.05	17.85	18.85	17.30	17.25	17.25	17.50	17.75
Philippines	11.48	10.41	15.01	17.61	17.20	17.11	17.49	17.03	17.06	16.69	n.a.
Singapore	7.38	10.12	14.12	7.81	9.44	9.81	9.94	9.12	8.19	8.31	n.a.
South Africa	7.85	4.72	7.12	15.47	18.85	17.86	17.32	17.92	18.19	17.59	17.10

Commercial bank deposit rates

at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	10.90	13.55	16.25	12.62	13.75	13.75	13.00	14.25	11.00	10.10	9.75
Canada	10.45	14.05	17.00	15.20	16.05	15.40	15.80	17.10	15.60	14.05	12.85
Japan	2.50	8.37	9.00	6.50	6.70	7.05	7.03	7.24	7.20	7.35	7.30
Australia	8.50	10.25	12.71	15.65	19.99	21.08	18.16	18.25	16.64	17.51	14.69
United Kingdom	12.25	16.81	14.87	15.69	13.62	13.65	13.37	13.00	11.81	10.63	10.81
Belgium	9.87	14.50	12.63	15.50	14.38	14.50	14.37	15.12	14.38	13.13	12.75
France	6.50	12.50	11.25	9.16	9.28	9.79	9.60	9.40	8.97	8.75	8.53
Germany	3.50	7.75	8.00	9.50	8.50	8.50	8.25	8.50	8.25	7.00	7.00
Italy	12.50	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	11.62	13.50	9.50	11.00	9.00	9.00	8.75	8.75	8.87	8.13	7.88
Austria	6.75	8.50	11.25	9.63	9.00	9.00	8.50	8.50	8.50	8.62	8.25
Denmark	7.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Finland	3.25	4.25	5.00	5.00	5.00	5.00	5.00	4.25	4.25	4.25	4.25
Ireland	12.75	17.87	13.63	18.38	20.00	20.00	19.88	19.50	17.37	15.50	15.25
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	4.50	4.50	11.78	12.02	12.12	12.19	12.06	12.02	12.44	n.a.
Sweden	6.25	8.75	9.75	10.25	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Switzerland	0.12	4.75	7.50	8.75	5.00	3.75	3.25	5.25	3.50	3.50	3.25
Argentina	86.63	72.64	72.00	86.76	106.40	92.00	70.00	85.89	60.83	60.83	85.16
Brazil	58.27	55.55	96.49	110.05	105.44	107.50	108.50	109.15	113.90	n.a.	n.a.
Hong Kong	4.50	9.25	13.00	12.50	12.50	12.50	11.50	11.50	11.00	9.00	9.00
Korea	15.00	15.00	14.82	14.40	12.00	12.00	12.00	7.60	7.60	7.60	7.60
Mexico	12.00	16.75	26.15	31.81	33.68	35.85	n.a.	n.a.	51.60	n.a.	n.a.
New Zealand	12.00	15.90	13.50	15.50	17.25	18.75	16.50	16.50	16.50	16.50	16.50
Philippines	8.50	10.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	7.31	10.31	13.19	7.50	8.44	8.75	9.31	9.00	7.75	8.00	n.a.
South Africa	7.30	4.82	7.87	14.75	17.50	17.55	17.05	17.75	17.87	17.17	16.50
Venezuela	7.25	15.00	16.00	14.75	15.25	15.50	15.50	15.50	16.00	15.50	14.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	11.75	15.25	21.50	15.75	16.50	16.50	16.50	16.50	15.50	13.50	13.00
Canada	11.50	15.00	18.25	16.50	17.00	17.00	17.00	18.25	17.25	15.50	15.00
Japan	4.50	6.51	8.16	6.95	6.42	6.38	6.36	6.34	6.40	6.50	6.50
Australia	11.00	10.75	13.50	15.75	16.50	17.50	17.50	17.50	17.50	17.50	17.00
United Kingdom	13.50	18.00	15.00	14.50	13.00	13.00	13.00	12.50	12.00	10.50	10.00
Belgium	10.00	15.25	15.75	18.00	17.00	17.50	17.50	17.50	17.50	16.75	16.00
France	9.80	12.50	12.25	14.00	14.00	14.00	14.00	14.00	13.75	13.25	13.25
Germany	5.50	9.75	11.50	13.00	12.00	12.00	11.50	11.50	11.50	11.50	10.50
Italy	15.00	19.50	20.50	22.50	21.75	21.75	21.75	21.75	21.75	20.75	20.75
Netherlands	12.00	15.00	10.75	12.00	9.25	9.75	9.50	9.75	10.00	8.75	8.75
Austria	8.75	8.50	12.50	13.50	13.50	13.00	13.00	12.25	12.25	12.25	11.50
Denmark	10.00	13.75	13.75	15.00	15.00	15.00	15.00	15.00	15.50	15.50	15.50
Finland	7.87	9.06	9.83	9.84	9.79	9.78	9.77	9.06	9.04	8.99	n.a.
Ireland	13.75	16.00	14.50	17.25	19.25	19.25	19.25	19.25	19.25	16.50	16.50
Norway	11.00	11.00	12.50	13.75	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Spain	9.00	9.00	18.50	17.04	15.75	16.91	16.64	18.96	19.50	17.82	15.03
Sweden	8.50	10.75	11.75	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Switzerland	5.00	5.00	5.75	8.00	7.50	7.50	7.50	7.00	7.00	6.50	6.50
Argentina	86.75	80.00	77.00	92.60	106.67	106.45	86.26	89.00	73.00	73.00	97.33
Brazil	64.34	59.60	96.45	138.09	142.12	145.35	138.89	141.04	143.19	151.80	151.80
Hong Kong	8.75	14.50	17.00	16.00	16.00	16.00	15.00	15.00	14.00	12.00	12.00
Korea	18.50	18.50	19.50	16.50	13.50	13.50	13.50	10.00	10.00	10.00	10.00
Mexico	17.50	19.00	24.25	31.81	33.67	34.39	36.26	54.01	61.39	n.a.	n.a.
New Zealand	9.75	11.75	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	14.00	16.00	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	7.65	9.50	13.60	11.83	9.98	10.18	10.98	10.98	10.70	10.25	n.a.
South Africa	11.50	9.50	9.50	17.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Venezuela	10.25	13.00	15.00	15.50	16.00	16.50	16.50	16.50	17.00	16.50	16.00

Domestic government bond yields

long-term issues, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	9.00	10.20	11.46	14.33	13.81	13.50	13.57	14.14	13.68	12.46	11.50
Canada	9.68	11.32	12.69	15.27	15.06	14.75	14.72	16.03	15.62	13.96	13.48
Japan	6.40	8.63	9.04	8.32	7.94	7.98	8.31	8.64	8.49	8.41	8.46
Australia	8.80	10.08	13.00	15.00	16.50	16.50	16.50	16.50	16.50	16.25	14.50
United Kingdom	12.75	13.83	13.05	15.02	13.06	13.35	13.07	13.08	13.05	11.20	10.74
Belgium	8.80	11.13	13.04	13.99	13.93	13.66	13.56	13.59	13.13	13.13	13.20
France	9.94	12.59	14.31	16.44	16.35	16.29	16.13	15.98	15.96	15.78	15.76
Germany	6.65	7.91	9.19	9.71	9.31	8.79	8.83	9.33	9.14	8.79	8.00
Italy	13.04	14.00	16.23	21.39	20.07	20.22	20.77	20.78	20.77	20.12	19.15
Netherlands	8.48	9.29	10.48	11.28	10.38	10.08	10.29	10.53	10.50	10.24	10.00
Austria	7.91	8.20	9.62	10.37	10.61	10.30	10.03	10.01	10.01	10.04	n.a.
Denmark	17.27	18.28	19.98	20.91	22.36	22.41	22.58	22.78	22.29	22.72	22.83
Finland	9.19	9.58	10.42	10.98	11.04	11.04	11.12	10.84	10.74	10.59	10.64
Ireland	13.44	16.64	15.63	18.28	18.83	18.28	18.28	18.58	17.33	15.93	15.17
Norway	8.19	10.04	10.44	12.37	13.21	13.21	13.26	12.95	12.95	13.16	13.27
Spain	n.a.	n.a.	n.a.	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Sweden	10.09	11.22	12.61	12.80	12.78	12.82	12.79	13.00	13.18	13.23	13.27
Switzerland	3.03	4.20	4.63	5.40	5.15	5.01	4.98	5.19	4.90	4.64	4.43
Argentina	112.18	47.94	36.84	107.98	80.10	69.25	62.77	97.25	151.14	309.96	188.74
New Zealand	10.02	12.98	12.99	12.55	12.98	12.92	12.97	12.99	12.97	n.a.	n.a.
Philippines	13.40	13.20	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	9.72	9.32	11.81	13.62	14.30	14.22	14.15	14.49	14.70	14.09	12.34
Venezuela	7.24	7.29	7.39	12.50	12.25	12.50	12.75	13.00	13.25	13.25	13.25

Domestic corporate bond yields

long-term issues, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	9.25	10.75	13.00	15.50	15.38	15.13	15.00	15.75	15.25	13.50	12.88
Canada	10.34	12.07	13.62	16.48	16.85	16.65	16.82	17.80	17.27	15.99	14.78
Japan	6.94	8.34	8.60	7.70	7.34	7.43	7.42	7.90	7.90	7.99	8.05
Australia	10.25	11.65	14.25	16.50	17.50	17.50	17.50	17.50	17.75	17.50	16.75
United Kingdom	13.53	14.96	14.21	16.55	14.60	14.86	14.60	14.62	13.86	12.53	12.51
France	10.27	12.92	15.23	17.33	16.99	17.02	16.80	16.67	16.67	16.61	16.83
Germany	6.80	8.20	9.50	10.50	9.90	9.40	9.10	9.30	9.50	9.40	9.30
Netherlands	8.62	9.85	10.71	11.03	10.40	10.16	10.21	10.51	10.65	10.32	10.19
Norway	8.37	10.53	11.24	13.36	14.06	14.06	12.40	12.90	12.90	14.14	14.94
Spain	13.49	14.20	14.82	14.76	15.98	16.40	16.72	17.98	17.42	17.86	18.36
Sweden	10.03	10.21	11.95	12.94	12.74	12.89	12.91	12.87	12.90	12.92	12.97
Switzerland	4.85	5.53	5.63	6.50	6.20	5.99	5.82	6.05	6.05	6.12	6.08
Korea	22.60	27.80	28.20	27.00	20.34	18.70	17.10	16.40	13.90	14.00	15.00
Venezuela	12.43	14.55	16.15	17.00	17.50	17.50	17.75	17.75	18.00	17.50	17.50

Key to data in tables

I. International markets

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

Categories of borrower

U.S. companies include both parent companies and their financing affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Country of borrower

The country of the borrower is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

International bond yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield.

The yield indices are simple arithmetic averages of end-of-month secondary market yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers. Occasionally the individual issues in each category are changed.

The number of issues represented in each of the indices is as follows:

Long-Term, U.S. companies, U.S. dollar — —ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc — four foreign bond issues.

Long-term, European companies, U.S. dollar — ten Euro-bond issues.

Long-term, European companies, German mark — ten Euro-bond issues.

Long-term, governments, U.S. dollar — six Euro-bond issues (governments of Italy, Denmark, and France).

Euro-currency deposit rates

All data are prime banks' bid rates for deposits in London. Offer rates commonly used as a basis for Euro-dollar lending are generally .125% above bid rates.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — overnight financing of Treasury bills (LTN) until November 1978. New series as of December 1979, rates paid for federal funds.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Euro-dollars — prime banks' bid rate for overnight money.

Treasury bill rates

Argentina — 28-day Treasury bills.

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Brazil — 91-day Treasury bills (LTN).

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit.

Sweden — new issues of 3-month Treasury bills.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month negotiable certificates of deposit of investment banks net of taxes.

Canada — 3-month time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Key to data in tables — continued

Ireland — 3-month time deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 3-month time deposits until April 1979. New series as of May 1979, 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month time deposits. Higher rates may be negotiated for 12-month or more time deposits in large amounts.

Philippines — 3-month time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — deposits at 6-months' notice.

Switzerland — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for large amounts until December 1978. New series as of January 1979, similar rate for domestic depositors only.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — weighted average investment bank lending rate for multinational companies including tax on financial obligations (IOF).

Canada — prime rate.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .333% prior to July 1978, .25% thereafter, per quarter on the total line of credit.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — maximum legal rate for discounting commercial bills plus a commission of 1% per annum until December 1979. New series as of January 1980, preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — actual interest rate on 3-month loans to prime industrial borrowers.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

United Kingdom — clearing bank base lending rate.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for prime borrowers until December 1978. New series as of January 1979, similar rate for domestic prime borrowers only.

Domestic government bond yields

Argentina — 7% National Adjustable Bond, third series maturing in 1985, inflation adjusted by the Official Correction Index.

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 10% government bond maturing 1983 until December 1977; 10% government bonds maturing 1986 until September 1980. New series as of October 1980, 12% serial bonds maturing 2001.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

South Africa — 25-year government bonds.

Spain — 3- to 4-year government guaranteed bonds. Tax credit of 22% available to corporate and private buyers if held to maturity.

Sweden — 15-year government bonds.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Domestic corporate bond yields

Australia — long-term secured debentures, indicated by Australian United Corporation.

Belgium — Belgian National Bank average yield on private corporate bonds maturing in more than five years.

Canada — McLeod, Young, Weir Co. Ltd., average yield on ten industrial bonds.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — FAZ 6% industrial bond average until September 1978. New series as of October 1978, Bundesbank average yield on industrial bonds

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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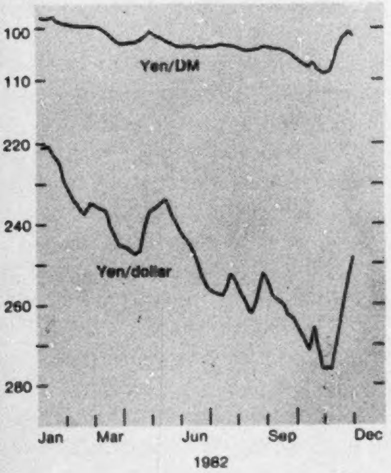
World Financial Markets

Morgan Guaranty Trust Company of New York

December 1982

The undervalued yen: causes and policy options, 1
  Factors underlying the weak yen and its turnaround, 2
  Policy options, 5
Statistical appendix, 7

Yen exchange rates



The undervalued yen: causes and policy options

After a period of prolonged weakness, the Japanese yen has rallied in foreign exchange markets, rising by about 11% against the dollar and 7%-8% against the mark and other EMS currencies since late October (see chart). Despite this advance, further appreciation of the yen is needed to reduce the growing trade friction between Japan and its principal trading partners and lessen pressures for competitive depreciations.

The Japanese authorities have spent $7-$8 billion to support their currency in the foreign exchange markets this year, and both they and United States officials have refuted charges that Japan has deliberately manipulated the yen to enhance the country's competitive position. But Japan's critics remain unconvinced.

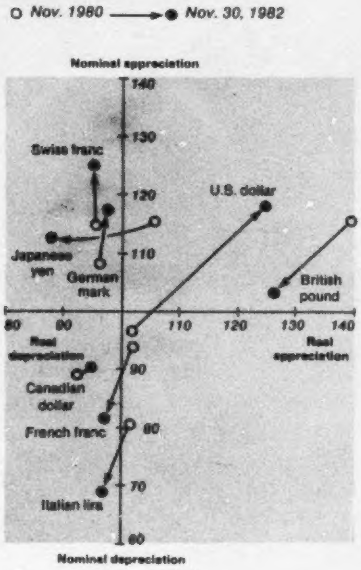
Even with its recent strengthening, the yen has depreciated 15% in real terms over the past couple of years — more than any other currency — and is still some 12% below its average level in the second half of the 1970s (see chart). The Japanese authorities have stressed that the yen's undervaluation is mainly a consequence of the exceptional strength of the dollar since President Reagan's election two years ago, which has left it about 23% above its average real effective level in the second half of the 1970s. While this helps to explain some of the yen's undervaluation, it does not tell the full story.

As is shown in the accompanying charts, the mark and other EMS currencies are very close to their average real effective levels of 1975-1979, even though they too have depreciated substantially against the dollar. This is a consequence of the attempt to maintain parities within the EMS bloc and the importance of intraregional trade, which results in the dollar having relatively small weight in the bilateral trade-weighted indices for the European currencies.

The shifts in relative competitive positions arising from exchange rate changes have attracted considerable attention, particularly at the latest GATT ministerial meeting. Whereas earlier GATT meetings had focused on steps to reduce tariff and nontariff barriers, this time it was recognized that misaligned exchange rates can have the same harmful effect on trade as do trade barriers, and that they can lead to increased protectionism. The weak yen, in particular, has been singled out as a source of trade friction.

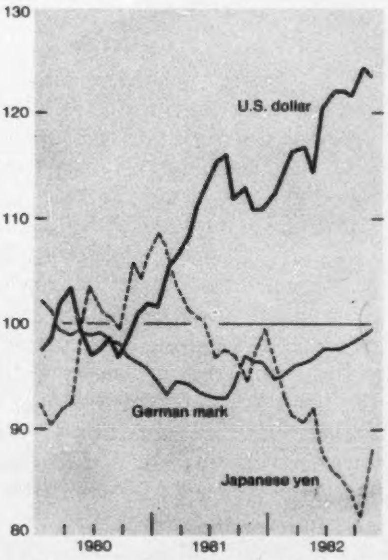
Nominal and real effective exchange rates

Index 1975–79=100



Real effective exchange rates

Index numbers, 1975-79=100



Although the dollar peaked against the yen and other key currencies in November, the extent of any further weakening in the coming months is far from certain. The dollar's recent decline is mainly a consequence of the easing of U.S. monetary policy, which has resulted in a slowing of private capital inflows into this country. It also stems from the deterioration in the U.S. current account since midyear partly in response to the reduced import capacity of Mexico and other Latin American countries. However, there are clear limits to which the U.S. authorities can permit further interest rate reductions, given the deteriorating U.S. budgetary situation and the very rapid expansion of U.S. money supply recently, which has left the principal monetary aggregates well above the upper end of their respective target ranges.

With any subsequent interest rate declines likely to be very modest, implying only a gradual recovery next year, the U.S. trade and current account deficits should wind up well below those forecast by the Council of Economic Advisers. In addition, there are economic and political factors — particularly, a low rate of U.S. inflation and the attractiveness of the United States as a safe haven for investment — that should continue to support the dollar and leave it well above its long-run average level on a real effective basis.

As regards Japan's international price competitiveness, part of the yen's recent appreciation is likely to be absorbed through reduced profit margins by Japanese exporters. To bring about a more meaningful shift in competitive positions, therefore, there is still necessity for considerable further yen appreciation against the dollar in the near term — e.g., to the 225-235 level. Some signal that the Japanese authorities would welcome such appreciation could have a highly beneficial impact on the world trade environment.

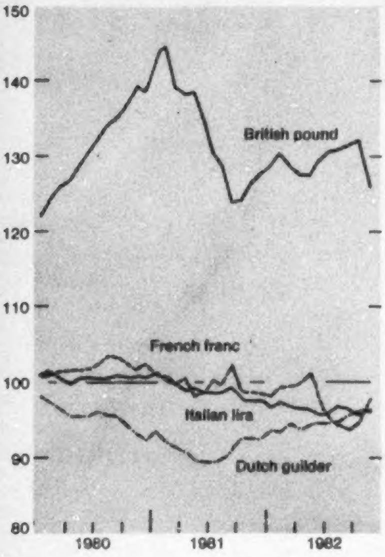
Factors underlying the weak yen and its turnaround

The yen's weakness throughout much of this year has stemmed in part from a Japanese current account performance that has turned out less strong than was expected. Although Japan's current account in the first three quarters of 1982 was in surplus at a $7½ billion seasonally adjusted annual rate, compared with just under $5 billion for 1981, many forecasters at the beginning of this year had projected a surplus in the range of $15-$20 billion for 1982.

With Japanese imports turning out to be much less than anticipated, the principal reason for the current account shortfall has been a surprisingly poor export performance. During the first three quarters of 1982 Japanese merchandise exports in dollar terms were down by 6½% from their level a year ago — the sharpest decline in several decades. Since midyear, the export decline has gathered momentum and become more broad-based, both in terms of geographic areas and in product categories (see Table 1). Even exports to the United States, which had been sustained by the precipitous decline in the yen relative to the dollar, have turned down since June. In September exports to the United States were nearly 12% below their level a year ago.

The drop in Japanese exports resulted in a very modest reduction in Japan's share of manufactures exports of the industrial countries, from 15.7% in the first half of 1981 to 15½% in the first half of this year — a pattern that most likely continued into the third quarter of 1982. It occurred while the United States' share of manufactures exports fell substantially in the comparable peri-

Real effective exchange rates
Index numbers, 1975-79=100



od, from 17.7% to 16.6%. The principal beneficiary of this shift was Germany, whose share climbed by 1½ percentage points to 17.8%, making it the largest exporter of manufactures in the world.

Japan's poor export performance clearly does not stem from lack of Japanese international price competitiveness. Rather, it mainly reflects the weakness of economic activity in Japan's principal export markets. The worldwide economic slowdown has been characterized by widespread inventory destocking and reduction of world trade. In addition, Japanese exports have been adversely affected by export restraints on such items as automobiles and VTRs, which have contributed to a 3% drop in merchandise export volume in the first three quarters of 1982. The volume of auto shipments to the United States in the first ten months of 1982 was down more than 6% over a year ago. Even so, Japan's bilateral trade surplus with the United States in 1982 is expected to be relatively unchanged from $16 billion in 1981, owing to a reduction of Japanese imports from the United States.

Movements in the yen exchange rate over the past couple of years have also been heavily influenced by capital flows, especially long-term capital. From the end of 1980, when Japanese foreign exchange controls were liberalized, until a few months ago, *net* outflows of long-term capital account steadily mounted. After small net inflows in 1980, net long-term outflows rose to nearly $10 billion last year and reached $15 billion in the first nine months of 1982, roughly twice last year's monthly rate (see Table 2).

The $12 billion swing in net long-term capital flows during 1981 was entirely accounted for by an increase in Japanese investment abroad. Almost half of this increase stemmed from purchases of foreign securities, reflecting pent-up demand for portfolio diversification by Japanese investors following liberalization of exchange controls. Japanese portfolio capital outflows have continued through this year. The remainder of the increase in Japanese investment abroad was fairly evenly distributed among direct investment outflows (mainly borrowings by Japanese subsidiaries located abroad from their head offices) and extensions of bank loans and supplier credits abroad.

During 1982, the more than $5 billion *increase* in net long-term capital outflows in the first nine months was entirely a consequence of a slowing of long-term foreign capital flows into Japan. During the first three quarters of this year, foreigners increased their holdings of Japanese securities by only $2.7 billion, after they had made net purchases totaling $12 billion in 1981. The more than $2 billion decline in foreign holdings of Japanese equities during this time was partly a response to diminished confidence in Japan's economic growth prospects in light of sluggish domestic demand and poor export performance. It also reflected some liquidations by OPEC investors partly in response to the disappearance of the OPEC current account surplus.

Over the past few months, however, there has been a significant reduction in net long-term capital outflows. Such outflows slowed to less than a $500 million monthly rate in September-October, and preliminary indications for November suggest a continuation of the recent pattern. The slowdown in net outflows to a large extent is a result of stepped-up net foreign purchases of Japanese securities. Net foreign purchases of Japanese equities amounted to $1½ billion in September-October after no net purchases in the previous two months. In addition, Japanese investors began selling their holdings of foreign securities, especially in the United States and the United Kingdom.

There was also a marked reduction (more than $2½ billion) in net short-term capital outflows during the third quarter, a result of increased purchases of *gensaki* instruments (repurchase agreements) by foreign investors. Such net purchases were up by more than $500 million in the third quarter, following net sales of $2 billion in the previous quarter.

Two principal factors underlie the recent improvement in the capital account. Since midyear there has been a significant narrowing in Japan's adverse interest rate differentials relative to the United States and other major industrial countries, at both the short and long ends of the maturity spectrum (see charts). At the end of June, for example, rates for three-month Euroyen deposits were 8½ percentage points below those for Eurodollar deposits, nearly 6 percentage points below those for Eurosterling deposits, and about 2 percentage points below those for Euromark deposits. By comparison, the short-term interest differentials against the Eurodollar and Eurosterling at present have been reduced to 2½ and 3½ percentage points, respectively, and that against the Euromark has been completely eliminated.

The same pattern applies to long-term government bond yields; Japan's adverse interest rate differentials vis-à-vis the United States and the United Kingdom have been cut roughly in half since midyear to about 2 percentage points. The long-term interest differential with Germany, moreover, is now slightly in favor of the yen. Given Japan's favorable long-term inflation outlook, current long-term interest differentials in real terms, if anything, favor the yen.

This narrowing of interest rate differentials has resulted from the more accommodative monetary policy stance in the United States in response to the much-weaker-than-expected economy and reduced inflation, and the subsequent easing of monetary policies throughout Europe. European officials, particularly those in Germany and the United Kingdom, seem prepared to match further interest rate reductions in the United States. Officials in Japan, however, clearly do not appear prepared to do so until there is a significant recovery of the yen. The latter view was reinforced by the timely assurance of Governor Mayekawa of the Bank of Japan that the Japanese authorities will not allow the interest differential with the dollar to widen in the future. This has generally been interpreted as meaning that the current Japanese discount rate will be maintained as long as the yen remains significantly undervalued.

The second factor behind the capital account improvement is an apparent change in market sentiment about the prospects of the yen. As the yen's decline approached

Table 1

Japanese exports

	% change from year ago		*% of total*
	1981	*Jan-Sep 1982*	*Jan-Sep 1982*
Total	17.1	—6.4	100
By market area:			
Industrial countries	20.4	—3.6	49.6
U.S.	23.1	—0.8	26.4
E.C.	13.5	—7.4	12.5
Others	22.9	—5.7	10.7
OPEC	23.8	—17.9	12.8
Non-OPEC LDCs	12.1	—3.5	31.8
Communist countries	3.9	—14.7	5.9
By products:			
Food	8.5	—30.8	1.0
Industrial supplies	6.0	—2.8	26.4
Chemicals	0.9	—7.8	4.5
Metals	4.4	2.7	12.7
Textiles	15.0	—10.2	3.4
Capital equipment	24.5	—6.6	41.9
Machinery	24.5	—6.7	24.6
Trans. equipment	26.1	—5.4	13.2
Consumer goods	19.8	—5.9	29.4
Cars	14.5	—2.4	13.0
Others	23.9	—8.5	16.4

Table 2

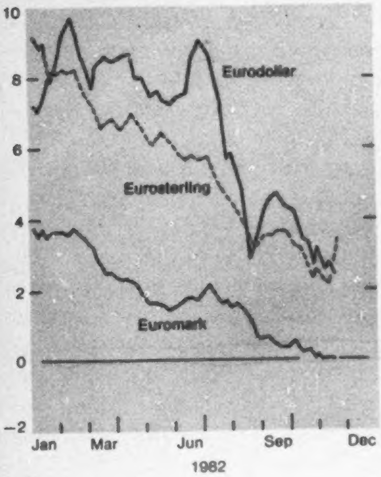
Japanese long-term capital flows

billions of dollars

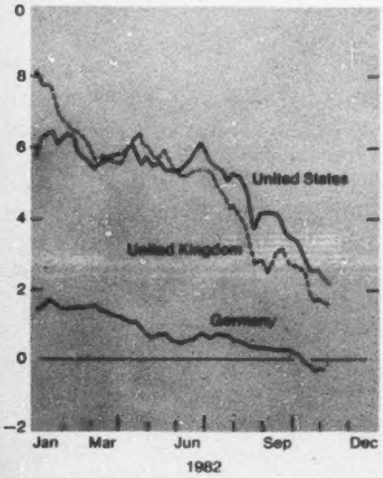
	1980	*1981*	*1982 Q1-Q3*	
Foreign investment in Japan	13.2	13.1	5.8	(7.7)*
Direct investment	0.3	0.2	0.2	(0.2)
Loans and trade credits	—0.2	—0.2	—0.2	(—0.2)
Domestic securities	11.9	11.9	2.7	(3.6)
External bonds	1.2	1.4	2.9	(4.8)
Others	0.0	—0.1	0.2	(0.2)
Japanese investment abroad	10.8	22.8	20.8	(27.7)
Direct investment	2.4	4.9	3.8	(5.1)
Loans and trade credits	3.3	7.8	8.0	(10.7)
Securities	3.8	8.8	7.5	(10.0)
Others	1.4	1.3	1.6	(2.1)
Net long-term capital flows	2.3	—9.7	—15.0	(—20.0)
Direct investment	—2.1	—4.7	—3.6	(—4.8)
Loans and trade credits	—3.5	—8.0	—7.8	(—10.4)
Securities (including external bonds)	9.3	4.5	—1.9	(—2.5)
Others	—1.4	—1.4	—1.4	(—1.9)

*Figures in parentheses are at annual rates.

Short-term interest rate differentials
vis-à-vis Euroyen deposits, in percent



Long-term interest rate differentials
vis-à-vis Japanese government bonds, in percent



¥280/dollar, market participants began to revise downward the exchange risks associated with potential yen depreciation compared with the possibility of yen appreciation. This change in market sentiment was accompanied by the announcement of a $1 billion surplus in Japan's basic balance (current account plus long-term capital account) in September — the first such surplus in almost a year. The change in sentiment, in turn, led to the cancellation of scheduled yen-denominated bond issues by foreigners and shifts in leads and lags of trade payments by exporters and importers.

With Japan's current account running a surplus of $9-$10 billion at an annual rate since early 1982 and exchange-market intervention relatively unchanged, it is clear from the above discussion that the recent yen turnaround mainly reflects the improvement in the long-term capital account. The recent narrowing in net private capital outflows is expected to continue into the next few months, with the adverse interest rate differentials for the yen likely to narrow further, albeit more gradually, than in recent months. This development is also likely to be accompanied by a further widening of Japan's current account surplus to well over $10 billion in 1983, leading to a continued basic balance surplus.

With a gradual economic recovery in the United States and the erosion of U.S. international price competitiveness likely to boost U.S. imports next year, Japan's bilateral trade surplus with the United States stands to rise significantly from its current level of about $16-$17 billion at an annual rate. Faced with this situation, further yen appreciation is essential to narrow the prospective Japanese trade and current account surpluses and, thereby, to help ward off increased protectionism.

Policy options

Several options have been suggested that Japan can implement unilaterally to help ensure further yen appreciation in order to reduce protectionist pressures. They include: (1) imposing capital controls, such as an interest equalization tax, to limit capital outflows; (2) changing the mix of fiscal and monetary policies to promote domestic economic recovery; and (3) stepping up foreign exchange market intervention, including the government issuance of foreign currency bonds abroad.

The argument on behalf of capital controls is that they would contain capital outflows, which have accelerated since the December 1980 liberalization of exchange controls. The Japanese authorities, however, have resisted imposing such controls for two reasons. First, they run counter to the broad thrust of liberalization of Japan's domestic financial markets and their integration with the global financial system. Despite the acceleration of liberalization in recent years, there is still considerable foreign criticism that Japan has not moved quickly enough to open its financial markets. Indeed, this year, in response to the weak yen, the Japanese authorities have taken several steps to slow net private capital outflows. They successfully prohibited the purchase by Japanese residents of foreign zero-coupon bonds, tightened restrictions on issuance of *Samurai* bonds (yen-denominated bonds issued by nonresidents), and also deferred the introduction of a secondary market for commercial paper issued by nonresidents.

From a longer-run perspective, however, it is essential that the process of liberalizing Japan's financial markets continue to channel Japan's excess domestic savings efficiently to the rest of the world. Moreover, in addition to opening up domestic markets for goods and services, all encouragement should be given to promote Japanese direct investment abroad in order to deal with the growing bilateral trade imbalances with other industrial countries. Although Japanese net direct investment has risen in the past couple of years, it is attributable mainly to borrowing by Japanese subsidiaries from head offices in Japan (where interest rates are lower) for covering operating capital needs. With Japanese domestic capacity geared largely for overseas markets, a reduction of trade frictions clearly calls for stepped up Japanese capacity expansion abroad.

A second reason that the Japanese authorities have rejected capital controls is their limited effectiveness. While such controls may help slow Japanese resident purchases of foreign securities or extensions of foreign credits by Japanese banks, they are unlikely to encourage capital inflows and may discourage them. As noted earlier, the main source of deterioration in the long-term capital account earlier this year was the reduced inflow of foreign capital. Moreover, based on previous experience, capital controls have not been a very effective means for limiting adverse leads and lags, suppliers' credits, or other forms of short-term capital outflows.

As regards the Japanese economic policy mix, the main concern abroad has been that its combination of a relatively easy monetary policy and an increasingly restrictive fiscal policy have been at odds with the mix of policies pursued in the United States since President Reagan's election two years ago. However, during this year there has been an ongoing deceleration of Japanese money supply growth (M2+CDs), while that of the United States has accelerated recently, reducing the disparity in monetary policies of the two countries. This has contributed to the narrowing of Japan's adverse interest rate differentials.

Nevertheless, with interest rates in Japan currently very high in real terms and the government committed to reducing the budget deficit steadily over the next few years, there is serious doubt about the country's ability to achieve a sufficiently high rate of economic growth to increase imports significantly. Although the long-run objective of reducing the budget deficit is laudatory, the large excess in domestic savings over private domestic investment in Japan and the declining trend in the cyclically adjusted budget deficit of the central government make it less urgent in the near term.

The current weak economic environment in Japan, if anything, requires a modest fiscal stimulus. As a minimum, there is clearly room for reconsidering the proposed budget for the next fiscal year that calls for a reduction in central government general outlays in real terms. Moreover, although concern about the large deficit of the central government (roughly 6% of GNP in fiscal 1982), which has been exacerbated by a substantial revenue shortfall, probably precludes a large tax cut, some specific allowances could be made to promote business investment and housing. As regards the Japanese consumer, the government could defer the increases in excise taxes that are currently being contemplated to counter proposed personal income tax cuts.

In sum, to sustain current market sentiment for a stronger yen a continued gradual shift in Japan's economic policy mix would be required. Furthermore, to bolster the yen the Japanese government could issue foreign-currency denominated (Nakasone) bonds abroad. The issuance of such foreign-currency denominated bonds essentially is a form of exchange market intervention because the proceeds could be sold in foreign exchange markets to support the yen. The obvious advantage of this form of intervention is the clear announcement effect that it would have, particularly if it were undertaken when the yen was appreciating. It would serve as a highly visible and persuasive rebuttal to the allegations that the yen is being manipulated for competitive reasons and would thereby help to counter pressures for competitive depreciations and protectionism.

Statistical appendix

for key to data in tables see November 1982 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Effective exchange rates

Index numbers, March 1973=100. The index of the effective exchange rate for a currency is a measure of that currency's trade-weighted average appreciation or depreciation vis-a-vis the currencies of 15 other major countries. The exchange rates used in the construction of this index are the averages of daily noon spot exchange rates in New York for months and for weeks ending on dates shown. The trade weights used are based on 1976 bilateral trade in manufactures.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
pre-June 1970 parities	118.5	94.9	79.3	116.2	91.6	97.5	110.9	95.9	98.2	88.3	97.8	97.9	98.1	102.2	92.2	98.4
Smithsonian central rates	107.0	101.3	88.7	116.0	95.4	96.1	108.3	97.0	99.1	91.6	98.0	96.0	96.3	100.5	91.7	98.1
1981																
December	107.7	84.9	123.9	77.7	137.0	82.4	46.0	104.9	118.8	186.4	122.0	86.4	107.7	81.3	81.2	63.2
1982																
January	109.2	84.6	121.5	78.0	137.0	81.9	45.9	104.6	118.7	186.2	122.2	85.6	107.8	81.4	80.8	63.2
February	112.3	83.5	117.6	78.5	136.8	81.8	45.9	102.0	118.8	186.8	121.9	84.5	108.8	81.6	80.7	63.3
March	114.1	83.3	115.6	78.0	139.1	81.9	45.6	95.8	120.6	190.0	122.4	83.1	109.6	81.9	80.1	61.9
April	115.2	83.2	115.0	77.5	140.4	81.6	45.2	95.1	120.3	185.0	123.1	82.9	110.0	81.8	80.3	61.8
May	113.6	82.3	117.2	77.4	141.6	82.3	45.2	95.7	120.7	180.9	123.8	84.1	109.2	81.4	79.3	62.1
June	118.8	80.2	112.9	78.5	142.0	78.9	45.0	95.4	121.6	178.1	123.8	82.5	110.1	81.9	80.2	61.4
July	119.9	80.7	112.1	78.8	142.6	76.8	45.1	95.6	122.0	179.7	124.1	82.0	108.8	82.0	79.3	61.1
August	119.8	82.5	110.9	78.9	142.8	76.5	45.0	95.3	122.8	179.6	124.3	81.7	104.2	82.7	77.3	61.2
September	120.4	83.3	109.7	79.2	143.2	75.8	45.0	94.8	123.6	179.1	124.6	81.3	102.0	82.6	76.4	61.4
October	121.9	83.9	107.2	80.0	144.4	76.0	44.7	94.5	124.9	179.5	124.2	83.5	102.2	73.0	76.5	61.1
November	121.8	84.3	111.1	77.6	144.8	76.4	44.2	94.5	125.4	180.1	125.9	84.7	103.1	70.3	76.5	59.7
October 1	121.4	83.5	107.9	79.1	143.2	75.6	45.0	94.2	123.9	178.3	124.5	81.6	102.0	82.7	76.5	61.4
8	121.9	83.4	107.1	79.5	143.5	75.6	44.9	94.1	124.3	178.6	124.5	81.9	101.6	80.4	76.5	61.3
15	120.9	84.0	109.0	80.2	144.7	76.1	44.7	94.5	125.0	181.2	125.5	83.5	101.1	70.9	76.3	61.4
22	121.6	84.2	107.5	80.1	144.5	76.2	44.5	94.6	125.1	180.1	125.8	84.2	102.4	70.7	76.4	60.9
29	122.6	84.3	105.7	79.8	144.2	76.1	44.5	94.8	125.4	178.8	125.9	84.1	102.6	70.8	76.7	60.7
November 5	122.7	84.6	105.9	79.8	144.3	76.2	44.3	94.6	125.2	178.9	125.8	84.3	102.7	70.7	76.7	60.5
12	122.6	84.7	108.5	79.4	144.1	76.0	44.1	94.5	125.1	179.0	125.8	84.2	102.9	70.6	76.7	60.0
19	122.0	84.5	111.7	77.1	144.6	76.2	44.1	94.8	125.6	180.5	126.0	84.8	103.1	70.3	76.6	59.4
26	120.9	84.0	115.7	75.4	145.6	76.7	44.2	94.3	125.4	180.8	126.0	85.2	103.4	69.9	76.3	59.2

Real effective exchange rates

Index numbers, March 1973=100. The index of the real effective exchange rate is the index of the effective exchange rate adjusted for inflation differentials which are measured by wholesale prices of nonfood manufactures. Exchange rates and trade weights used in the construction of this index are the same as those used for effective exchange rate indices. Annual figures are averages of months.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
1978	96.3	92.1	106.9	106.3	103.5	97.4	89.8	98.6	104.1	124.0	109.1	102.7	98.0	96.4	89.5	97.2
1979	96.3	92.1	95.7	118.4	103.9	98.9	93.0	95.8	100.5	116.8	107.6	100.7	92.6	99.0	88.2	109.0
1980	98.0	91.3	93.4	137.9	100.8	100.6	95.9	90.6	97.1	106.5	108.2	93.3	94.8	100.5	89.7	103.1
1981	108.7	91.4	94.3	140.9	96.6	98.9	91.2	85.0	93.1	105.5	106.1	89.1	99.2	101.3	98.9	97.6
1981																
December	109.3	93.1	93.3	135.2	98.6	97.6	89.4	83.7	94.2	113.9	105.9	89.7	100.2	95.3	99.5	97.8
1982																
January	110.8	92.8	90.5	135.8	98.1	97.3	89.6	82.7	95.8	112.4	106.3	87.6	102.2	96.7	99.7	98.3
February	113.2	92.0	87.4	136.7	97.1	98.5	90.5	80.5	95.7	112.2	106.0	86.6	103.5	97.6	101.0	99.0
March	114.4	92.3	85.7	135.6	98.1	98.4	90.0	77.4	96.7	114.0	107.3	85.8	102.9	98.2	101.3	97.8
April	114.8	92.9	85.1	134.7	98.5	98.9	89.5	77.1	96.3	111.0	107.7	86.2	103.8	98.1	102.0	98.4
May	112.8	92.1	86.4	134.3	99.0	100.7	89.7	77.9	96.4	108.6	107.8	86.8	103.5	97.7	101.3	99.7
June	118.6	89.4	82.5	136.3	99.8	96.3	88.9	77.6	96.8	107.1	107.3	86.3	103.2	97.7	102.8	99.1
July	120.4	89.3	81.2	137.1	99.7	94.2	89.2	77.9	96.8	107.3	107.6	85.8	101.8	98.3	102.5	99.2
August	120.5	90.9	80.4	137.2	99.9	93.8	90.2	76.9	97.2	107.2	107.4	86.1	97.7	99.1	100.0	99.7
September	120.0	92.8	79.2	138.2	100.1	93.1	90.8	75.5	98.1	107.2	107.2	86.3	96.0	96.7	99.6	101.1
October	122.7	92.4	76.7	139.4	100.8	93.8	89.9	75.8	98.6	107.2	106.6	88.8	95.5	87.4	100.0	101.0
November	122.7	92.8	79.6	135.7	101.3	94.1	88.7	74.7	99.2	107.3	108.6	90.4	97.6	84.2	100.5	99.6

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, and Singapore
billions of dollars (rounded to nearest $5 billion), at end of period

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	
										Mar	Jun
Estimated size											
Gross	315	395	485	595	740	950	1 235	1 525	1 860	1 930	1 900
Liabilities to nonbanks	55	80	90	115	145	190	260	345	440	455	n.a.
Liabilities to central banks	40	60	65	80	100	115	145	150	130	120	n.a.
Liabilities to other banks[a]	220	255	330	400	495	645	830	1 030	1 290	1 355	n.a.
Net	160	220	255	320	390	495	590	730	890	900	905
Claims on nonbanks	70	105	130	165	210	265	330	425	530	540	n.a.
Claims on central banks and on banks outside market area[b]	70	95	105	130	150	185	200	230	275	275	n.a.
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	20	25	30	45	60	75	85	85	n.a.
Eurodollars as % of gross liabilities in all Eurocurrencies	74	76	78	80	76	74	72	75	78	79	n.a.

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
Eurodollar:											
overnight	10.62	14.00	19.25	12.87	15.62	13.62	14.88	11.50	9.00	10.50	9.50
7-day fixed	10.62	14.00	19.75	13.00	15.25	14.00	15.38	11.75	9.25	10.50	9.50
one month	11.00	14.37	19.12	13.31	15.06	14.38	15.44	12.13	10.94	11.00	9.62
three months	11.69	14.44	17.55	13.75	14.94	14.38	15.81	13.06	11.88	11.44	10.00
six months	12.31	14.44	16.37	14.81	14.87	14.44	16.00	13.38	12.44	11.94	10.19
twelve months	12.00	12.87	14.87	14.75	14.63	14.44	16.00	14.06	12.87	12.19	10.50
Euromark:											
one month	3.19	8.50	8.87	10.44	9.00	8.56	8.87	8.87	8.12	7.62	7.00
three months	3.31	8.56	8.87	10.50	8.87	8.56	9.00	8.87	8.19	7.75	7.00
six months	3.69	8.56	8.87	10.56	8.81	8.56	9.12	9.12	8.44	7.94	7.00
twelve months	3.81	8.12	8.93	10.25	8.50	8.50	9.25	9.12	8.44	7.94	6.94
Euro-Swiss franc:											
one month	—.06	5.19	6.00	8.87	3.62	3.63	4.37	3.25	3.25	3.81	3.00
three months	0.00	5.75	6.00	9.25	4.31	4.25	5.06	4.25	4.00	4.37	3.56
six months	0.12	5.87	5.75	9.25	5.00	4.94	5.94	5.12	4.88	4.81	4.12
twelve months	0.62	5.56	5.50	8.50	5.37	5.06	6.00	5.12	4.94	4.81	4.19
Eurosterling:											
one month	12.00	16.75	14.75	15.37	13.50	13.37	13.00	11.88	11.00	10.88	9.87
three months	12.62	16.75	14.75	15.69	13.62	13.37	13.06	11.81	10.81	10.50	9.44
six months	13.25	16.75	14.25	15.69	13.62	13.37	13.06	11.81	10.81	10.50	9.44
twelve months	13.00	15.25	14.00	15.37	13.69	13.37	13.13	11.94	10.81	10.50	9.44
Euro-French franc:											
one month	10.50	13.87	11.12	15.75	21.50	29.50	15.50	14.75	21.00	16.25	20.00
three months	9.87	14.00	11.75	17.00	22.00	26.75	16.75	16.00	23.75	18.00	20.00
six months	9.87	14.12	12.25	18.00	21.75	23.75	18.00	17.37	22.75	19.00	20.00
twelve months	10.25	13.75	12.87	18.25	19.75	23.75	18.63	18.00	21.00	19.25	19.00
Euroyen:											
one month	—.69	7.62	9.12	6.12	6.87	7.06	7.25	6.69	7.06	7.00	6.75
three months	0.62	8.31	9.25	6.12	6.94	7.12	7.25	7.12	7.31	7.25	6.87
six months	1.87	8.62	9.62	6.87	6.94	7.12	7.31	7.38	7.44	7.50	6.94
twelve months	2.19	7.94	9.37	6.87	6.81	7.38	7.25	7.12	7.44	7.56	7.00

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1979	1980	1981	1982			Jan-Nov	
				Sep	Oct[r]	Nov[p]	1982	1981
Industrial countries	**27 248**	**39 100**	**86 022**	**6 813**	**3 469**	**1 655**	**40 945**	**81 662**
Australia	941	2 475	1 680	398	310	150	4 446	1 390
Canada	1 845	1 743	4 112	1 000	443	—	3 778	4 112
Denmark	1 205	1 720	1 661	—	—	—	770	1 559
France	2 955	1 745	3 912	4 000	168	60	5 580	3 412
Greece	1 009	1 333	1 039	—	—	20	770	1 039
Ireland	687	237	1 361	—	27	—	401	1 061
Italy	3 708	6 268	6 030	306	120	302	3 304	5 743
Norway	935	685	713	120	200	—	1 969	453
Portugal	887	745	1 590	80	42	80	1 238	1 580
Spain	4 184	5 457	3 242	100	200	220	1 647	3 225
Sweden	1 263	1 370	1 867	—	—	174	599	1 852
United Kingdom	795	1 470	747	—	736	80	1 635	633
United States	2 348	6 719	54 784	375	705	280	6 141	52 557
Others[a]	4 486	7 133	3 284	434	518	289	8 667	3 046
Developing countries	**47 964**	**35 054**	**45 239**	**1 596**	**2 377**	**2 387**	**38 269**	**42 909**
Non-OPEC countries	35 411	24 009	33 369	1 240	1 226	1 567	26 024	31 246
Argentina	2 965	2 506	2 534	—	—	—	465	2 034
Brazil	6 278	4 158	5 751	401	612	485	5 400	5 323
Chile	867	1 322	2 204	4	300	—	1 189	2 204
Colombia	754	608	1 005	—	—	—	157	775
Korea	3 258	1 917	2 824	292	122	340	2 800	2 824
Malaysia	1 168	—	1 725	25	—	15	1 837	1 725
Mexico	8 243	5 971	7 530	—	3	450	7 938	7 354
Peru	596	480	1 407	175	40	—	1 069	1 407
Philippines	2 067	1 056	1 257	50	—	52	580	932
Taiwan	1 063	314	928	225	—	—	255	921
Other	8 152	5 677	6 204	68	149	225	4 334	5 747
OPEC countries	12 553	11 045	11 870	356	1 151	820	12 245	11 663
Ecuador	593	1 209	934	—	—	—	815	914
Indonesia	1 061	1 435	725	46	275	29	976	725
Nigeria	1 373	1 330	1 802	258	70	27	1 990	1 765
United Arab Emirates	401	101	363	—	—	—	93	363
Venezuela	6 830	6 715	7 559	52	780	164	6 779	7 459
Other	2 295	255	497	—	26	600	1 592	437
Communist countries	**7 325**	**2 809**	**1 791**	**38**	**—**	**10**	**682**	**1 471**
China	3 395	181	370	—	—	10	10	50
East Germany	796	303	470	8	—	—	8	470
Hungary	260	550	550	30	—	—	290	550
Poland	849	800	—	—	—	—	—	—
Other[b]	2 025	975	401	—	—	—	374	401
International organizations[c]	**275**	**429**	**302**	**—**	**—**	**—**	**150**	**70**
TOTAL	**82 812**	**77 392**	**133 354**	**8 447**	**5 846**	**4 052**	**80 046**	**126 112**

[a] Includes multinational organizations [b] Includes COMECON institutions [c] Includes regional development organizations [p] preliminary
[r] revised

International bond yields

long-term issues, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
U.S. companies:											
U.S. dollar	8.55	10.13	11.76	12.70	13.04	13.02	13.41	13.33	13.04	12.92	11.63
Swiss franc	5.70	6.61	7.27	7.30	7.40	7.40	7.66	7.53	7.64	7.92	7.87
European companies:											
U.S. dollar	9.21	10.93	12.42	14.29	13.99	13.88	14.12	14.15	13.81	13.73	12.81
German mark	6.84	7.55	8.79	9.36	8.38	8.23	8.35	8.28	8.32	8.24	8.23
Governments:											
U.S. dollar	9.12	10.66	11.83	13.59	13.59	13.50	13.77	13.78	13.41	13.30	12.62

New international bond issues

new issues in period, in millions of dollars

	1979	*1980*	*1981*	*1982*			*Jan-Nov*	
				Sep	*Octr*	*Novp*	*1982*	*1981*
By type:								
Eurobonds, total	**18 726**	**23 970**	**31 616**	**3 725**	**4 546**	**5 171**	**49 399**	**29 719**
by category of borrower								
U.S. companies	2 872	4 107	6 178	1 428	809	965	13 085	5 983
Foreign companies	7 183	9 032	12 882	652	1 887	1 461	12 709	11 578
State enterprises	4 524	5 839	7 496	984	1 269	840	13 225	7 268
Governments	2 433	3 045	2 629	234	398	1 356	6 904	2 531
International organizations	1 714	1 947	2 431	427	183	549	3 476	2 359
by currency of denomination								
U.S. dollar	12 565	16 427	26 830	3 095	3 870	3 762	42 523	25 480
German mark	3 626	3 607	1 277	343	72	462	2 443	989
Dutch guilder	531	1 043	529	37	85	36	645	529
Canadian dollar	425	279	634	—	110	33	1 181	479
European composite units	253	65	309	130	107	788	1 312	264
Other	1 326	2 549	2 037	120	302	90	1 295	1 978
Foreign bonds outside the United States, total	**17 749**	**14 521**	**13 817**	**1 246**	**1 751**	**1 588**	**19 538**	**12 589**
by category of borrower								
U.S. companies	217	307	592	34	92	—	1 873	428
Foreign companies	3 463	3 157	3 384	267	468	516	4 145	3 209
State enterprises	3 284	2 830	3 701	450	347	475	5 285	3 351
Governments	7 663	4 086	2 762	148	337	175	3 445	2 435
International organizations	3 122	4 141	3 378	347	507	422	4 790	3 166
by currency of denomination								
German mark	5 379	4 839	1 310	117	285	314	2 882	1 087
Swiss franc	9 777	7 617	8 285	626	1 113	889	10 973	7 727
Dutch guilder	75	259	481	50	99	72	919	481
Japanese yen	1 833	1 088	2 457	296	183	239	3 231	2 227
Other	685	718	1 284	157	71	74	1 533	1 067
Foreign bonds in the United States, total	**4 515**	**3 429**	**7 552**	**700**	**650**	**149**	**6 098**	**6 682**
by category of borrower								
Canadian entities	2 193	2 136	4 630	100	100	49	3 330	4 594
International organizations	1 100	550	1 375	400	250	—	1 700	775
Other	1 222	743	1 547	200	300	100	1 066	1 313
By country of borrower:								
Industrial countries	**31 886**	**32 732**	**40 978**	**4 630**	**5 674**	**5 600**	**60 506**	**38 352**
Australia	593	539	991	455	130	191	2 246	654
Austria	1 218	1 859	1 557	—	105	39	1 668	1 557
Canada	4 197	3 797	10 648	685	821	487	11 960	10 280
Denmark	752	1 125	695	74	67	307	1 269	640
Finland	699	392	672	—	151	76	815	645
France	2 106	2 820	3 156	477	698	508	7 240	3 043
Italy	338	904	1 108	20	18	729	1 746	1 108
Japan	5 775	5 309	6 928	682	693	1 122	7 852	6 352
Netherlands	832	1 585	630	18	368	36	865	569
New Zealand	553	293	1 107	139	106	92	1 075	1 107
Norway	1 955	892	530	93	250	—	832	530
Sweden	1 530	3 244	2 050	186	300	112	2 274	1 950
United Kingdom	1 181	1 733	1 408	200	273	396	1 181	1 064
United States	6 767	5 587	6 770	1 462	901	965	14 958	6 411
Developing countries	**3 093**	**2 485**	**4 769**	**67**	**333**	**406**	**4 765**	**4 284**
Non-OPEC countries	2 675	1 942	4 338	30	208	406	3 775	3 878
Brazil	930	349	60	—	18	—	91	60
Korea	44	68	323	30	20	10	152	323
Mexico	363	544	3 012	—	—	—	1 919	2 752
OPEC countries	418	543	431	37	125	—	990	406
Venezuela	55	398	291	—	—	—	385	266
Communist countries	**75**	**65**	**75**	—	—	—	**65**	**75**
International organizations	**5 936**	**6 638**	**7 163**	**974**	**940**	**902**	**9 697**	**6 279**
TOTAL	**40 990**	**41 920**	**52 985**	**5 671**	**6 947**	**6 908**	**75 033**	**48 990**

Central bank discount rates

	1978	1979	1980	1981	1982			Current	
	end Dec	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	Nov 30 1982	effective since
United States	9.50	12.00	13.00	12.00	12.00	12.00	10.00	9.00	Nov 22, 82
Canada	10.75	14.00	17.36	14.66	15.11	16.58	12.98	10.97	Nov 25, 82
Japan	3.50	6.25	7.25	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	12.50	17.00	14.00	14.37	13.00	12.50	10.00	10.00	Nov 26, 82
Belgium	6.00	10.50	12.00	15.00	13.00	14.00	12.50	12.00	Oct 21, 82
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	3.00	6.00	7.50	7.50	7.50	7.50	7.00	6.00	Oct 22, 82
Italy	10.50	15.00	16.50	19.00	19.00	19.00	18.00	18.00	Aug 24, 82
Netherlands	6.50	9.50	8.00	9.00	8.00	8.00	7.00	6.00	Oct 22, 82
Austria	4.50	3.75	6.75	6.75	6.75	6.75	6.25	5.75	Oct 22, 82
Denmark	8.00	11.00	11.00	11.00	11.00	11.00	11.00	10.00	Nov 30, 82
Finland	7.25	8.50	9.25	9.25	9.25	8.50	8.50	8.50	Jun 1, 82
Ireland	11.85	16.40	12.75	17.15	18.30	18.30	14.55	12.85	Oct 22, 82
Norway	7.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	Nov 30, 79
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	6.50	9.00	12.00	11.00	10.00	10.00	10.00	10.00	Mar 10, 82
Switzerland	1.00	2.00	3.00	6.00	5.50	5.50	5.00	5.00	Aug 27, 82
Argentina	108.19	89.90	87.01	98.50	99.87	87.23	128.54	128.54	Sep 30, 82
Korea	14.50	14.50	15.50	10.50	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	10.50	13.00	14.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	4.50	6.75	10.50	9.50	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	8.50	7.00	7.00	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	7.50	11.00	13.00	14.00	14.00	14.00	14.00	13.00	Sep 30, 82

Day-to-day money rates

monthly averages

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	10.03	13.78	18.90	12.37	14.94	14.45	14.15	12.59	10.12	10.31	9.71
Canada	9.44	13.83	15.61	14.53	14.81	15.22	15.55	16.16	15.03	13.58	12.10
Japan	4.57	8.02	9.49	6.70	7.16	7.17	7.19	7.19	7.18	6.99	6.92
Australia	8.40	7.84	9.51	12.84	16.39	15.51	15.01	13.39	15.09	13.23	13.27
United Kingdom	10.00	14.87	13.00	9.13	9.13	9.13	8.31	10.10	9.75	9.80	8.56
Belgium	6.73	10.65	9.68	12.78	12.77	12.95	11.68	13.13	11.76	10.52	11.13
France	6.67	12.17	10.87	15.46	16.81	16.41	15.98	15.05	14.58	14.11	13.91
Germany	3.61	9.15	9.13	10.65	9.47	9.08	9.00	9.03	8.74	7.96	7.48
Italy	11.00	16.00	17.50	20.63	20.50	20.50	20.41	20.13	19.69	18.63	18.63
Netherlands	10.00	15.67	8.37	10.67	7.94	8.87	7.63	8.94	8.63	7.33	n.a.
Austria	5.37	8.50	11.50	7.50	9.50	9.75	9.62	10.50	9.25	7.75	6.25
Finland	9.29	13.53	12.50	11.30	11.50	11.50	11.50	11.50	11.50	11.45	11.70
Ireland	12.12	16.88	13.31	16.88	18.75	19.25	18.94	18.25	15.62	16.00	13.13
Spain	16.75	9.61	16.74	18.73	12.42	17.84	22.34	17.29	13.96	13.78	20.54
Sweden	6.26	11.99	11.41	13.82	13.15	13.99	14.65	14.98	14.47	15.22	13.30
Switzerland	0.00	1.25	5.75	3.38	2.75	1.25	1.50	1.50	1.50	2.25	1.87
Argentina	n.a.	78.22	70.84	84.93	136.67	91.51	74.82	80.72	101.34	127.09	135.66
Brazil	42.08	37.51	62.71	103.74	91.64	99.86	99.86	104.43	130.32	108.40	125.22
Hong Kong	9.67	14.19	14.05	10.75	15.07	14.75	13.50	11.75	8.25	9.37	11.05
Korea	15.00	15.00	14.82	14.40	12.00	12.00	13.35	13.39	13.23	13.39	13.58
Philippines	13.22	16.25	15.70	14.70	13.39	14.63	11.37	8.20	10.56	12.68	13.01
Singapore	4.98	10.17	10.23	3.96	9.63	9.63	6.39	6.44	7.56	5.67	n.a.
South Africa	7.11	3.81	5.60	12.34	14.20	14.36	14.62	14.94	14.72	14.85	14.45
Eurodollars	10.80	14.41	19.22	12.29	14.88	14.63	14.13	12.57	10.10	10.52	9.88

Treasury bill rates

bond-equivalent yields, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	9.42	12.39	14.87	11.90	12.88	12.00	13.15	10.63	8.01	7.64	8.13
Canada	10.46	13.66	17.01	14.41	14.98	15.18	16.33	15.25	13.70	12.73	11.21
Japan	3.39	5.68	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	8.35	9.31	12.17	13.27	19.29	14.88	15.47	14.61	14.43	11.62	13.72
United Kingdom	12.01	16.45	13.45	15.31	13.37	13.17	12.70	11.58	10.26	9.99	9.40
Belgium	9.25	14.40	12.75	16.00	15.00	15.00	15.75	14.50	13.75	12.75	12.75
Ireland	11.83	16.37	12.84	17.35	18.28	18.25	18.05	16.76	14.64	14.48	12.74
Italy	12.81	15.62	16.87	21.36	19.81	20.05	19.25	19.27	19.01	17.72	18.05
Netherlands	9.50	12.75	8.00	9.75	8.88	8.75	8.19	8.75	7.38	7.00	n.a.
Spain	13.00	15.00	17.20	15.83	14.89	16.09	16.57	16.49	15.53	15.15	16.79
Sweden	5.84	9.74	12.87	9.20	9.22	9.22	9.22	10.25	10.25	10.26	10.26
Argentina	82.55	71.04	66.19	77.10	93.45	56.00	53.46	108.31	133.36	133.36	133.36
Brazil	49.96	31.68	110.60	110.21	115.56	110.52	112.91	122.71	131.87	135.53	132.91
Korea	17.01	19.53	16.35	16.00	14.40	14.40	14.40	14.40	14.40	14.40	8.00
Mexico	12.75	17.89	27.73	33.22	38.48	43.52	51.30	53.01	55.88	49.42	n.a.
New Zealand	10.50	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
Philippines	12.08	12.63	12.74	13.40	14.19	14.64	14.75	14.87	14.18	14.30	14.32
Singapore	4.01	6.18	6.77	3.03	3.50	3.93	3.93	3.62	3.30	3.09	n.a.
South Africa	7.61	4.30	6.31	14.55	16.45	16.57	17.06	17.12	16.91	16.12	16.06

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	10.57	13.70	17.62	12.78	14.24	13.58	15.19	11.98	9.61	10.26	8.68
Canada	10.62	14.15	17.50	15.25	15.45	15.90	17.20	15.70	14.20	12.95	11.65
Japan	4.64	8.01	9.80	6.30	6.67	7.08	7.19	7.02	7.22	7.05	6.89
Australia	9.10	10.30	13.00	16.00	22.00	18.25	19.10	16.95	17.00	14.10	15.50
United Kingdom	12.50	17.00	14.75	15.69	13.62	13.44	13.00	11.94	10.75	10.56	9.56
Belgium	9.25	14.45	13.10	16.00	15.00	14.75	15.75	14.75	13.90	13.00	12.85
France	6.44	12.62	11.56	15.25	16.63	16.13	14.87	14.87	14.38	13.81	13.06
Germany	3.70	8.70	10.20	10.50	9.15	9.15	9.40	9.30	8.30	8.00	7.33
Ireland	13.00	18.12	13.63	18.50	20.00	20.00	19.88	17.50	15.62	15.38	13.69
Italy	11.37	17.12	17.37	21.00	20.50	20.50	20.38	20.00	18.75	18.50	18.50
Netherlands	10.50	13.00	9.37	11.00	8.25	8.75	8.87	9.12	8.13	8.00	6.38
Spain	22.80	13.20	17.40	15.52	14.61	15.62	18.02	17.32	15.13	13.91	17.30
Switzerland	0.50	6.12	7.50	10.12	4.75	4.38	5.12	4.37	4.00	4.62	3.75
Hong Kong	11.82	14.37	17.69	14.18	15.13	14.75	14.25	12.75	10.75	10.00	11.00
Korea	17.01	19.53	16.35	15.69	12.00	12.50	8.00	8.00	8.00	8.00	8.00
New Zealand	12.00	16.00	14.25	16.05	18.85	17.30	17.25	17.25	17.50	17.75	n.a.
Philippines	11.48	10.41	15.01	17.61	17.11	17.49	17.03	17.06	16.69	16.50	15.89
Singapore	7.38	10.12	14.12	7.81	9.81	9.94	9.12	8.19	8.31	7.69	n.a.
South Africa	7.85	4.72	7.12	15.47	17.86	17.32	17.92	18.19	17.59	17.10	17.21

Commercial bank deposit rates

at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	10.90	13.55	16.25	12.62	13.75	13.00	14.25	11.00	10.10	9.75	9.15
Canada	10.45	14.05	17.00	15.20	15.40	15.80	17.10	15.60	14.05	12.85	11.60
Japan	2.50	8.37	9.00	6.50	7.05	7.03	7.24	7.20	7.35	7.30	7.27
Australia	8.50	10.25	12.71	15.65	21.08	18.16	18.25	16.64	17.51	14.69	14.96
United Kingdom	12.25	16.81	14.87	15.69	13.65	13.37	13.00	11.81	10.63	10.81	9.50
Belgium	9.87	14.50	12.63	15.50	14.50	14.37	15.12	14.38	13.13	12.75	12.50
France	6.50	12.50	11.25	9.16	9.79	9.60	9.40	8.97	8.75	8.53	8.43
Germany	3.50	7.75	8.00	9.50	8.50	8.25	8.50	8.25	7.00	7.00	6.60
Italy	12.50	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	11.62	13.50	9.50	11.00	9.00	8.75	8.75	8.87	8.13	7.88	n.a.
Austria	6.75	8.50	11.25	9.63	9.00	8.50	8.50	8.50	8.62	8.25	7.75
Denmark	7.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Finland	3.25	4.25	5.00	5.00	5.00	5.00	4.25	4.25	4.25	4.25	4.25
Ireland	12.75	17.87	13.63	18.38	20.00	19.88	19.50	17.37	15.50	15.25	13.63
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	4.50	4.50	11.78	12.12	12.19	12.06	12.02	12.44	12.33	n.a.
Sweden	6.25	8.75	9.75	10.25	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Switzerland	0.12	4.75	7.50	8.75	3.75	3.25	5.25	3.50	3.50	3.25	3.00
Argentina	86.63	72.64	72.00	86.76	92.00	70.00	85.89	60.83	60.83	85.16	85.16
Brazil	58.27	55.55	96.49	110.05	107.50	108.50	109.15	113.90	99.00	103.18	107.53
Hong Kong	4.50	9.25	13.00	12.50	12.50	11.50	11.50	11.00	9.00	9.00	9.00
Korea	15.00	15.00	14.82	14.40	12.00	12.00	7.60	7.60	7.60	7.60	7.60
Mexico	12.00	16.75	26.15	31.81	35.85	40.86	48.05	50.60	53.29	49.75	n.a.
New Zealand	12.00	15.90	13.50	15.50	18.75	16.50	16.50	16.50	16.50	16.50	16.50
Philippines	8.50	10.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	7.31	10.31	13.19	7.50	8.75	9.31	9.00	7.75	8.00	7.31	n.a.
South Africa	7.30	4.82	7.87	14.75	17.55	17.05	17.75	17.87	17.17	16.50	16.53
Venezuela	7.25	15.00	16.00	14.75	15.50	15.50	15.50	16.00	15.50	14.50	15.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	11.75	15.25	21.50	15.75	16.50	16.50	16.50	15.50	13.50	13.00	12.00
Canada	11.50	15.00	18.25	16.50	17.00	17.00	18.25	17.25	15.50	15.00	13.75
Japan	4.50	6.51	8.16	6.95	6.38	6.36	6.34	6.33	6.32	6.35	6.35
Australia	11.00	10.75	13.50	15.75	17.50	17.50	17.50	17.50	17.50	17.00	16.50
United Kingdom	13.50	18.00	15.00	14.50	13.00	13.00	12.50	12.00	10.50	10.00	9.50
Belgium	10.00	15.25	15.75	18.00	17.50	17.50	17.50	17.50	16.75	16.00	16.00
France	9.80	12.50	12.25	14.00	14.00	14.00	14.00	13.75	13.25	13.25	12.75
Germany	5.50	9.75	11.50	13.00	12.00	11.50	11.50	11.50	11.50	10.50	10.50
Italy	15.00	19.50	20.50	22.50	21.75	21.75	21.75	21.75	20.75	20.75	20.75
Netherlands	12.00	15.00	10.75	12.00	9.75	9.50	9.75	10.00	8.75	8.75	n.a.
Austria	8.75	8.50	12.50	13.50	13.00	13.00	12.25	12.25	12.25	11.50	11.50
Denmark	10.00	13.75	13.75	15.00	15.00	15.00	15.00	15.50	15.50	15.50	15.50
Finland	7.87	9.06	9.83	9.84	9.78	9.77	9.06	9.04	8.99	8.97	n.a.
Ireland	13.75	16.00	14.50	17.25	19.25	19.25	19.25	19.25	16.50	16.50	16.50
Norway	11.00	11.00	12.50	13.75	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Spain	9.00	9.00	18.50	17.04	16.91	16.64	18.96	19.50	17.82	16.04	n.a.
Sweden	8.50	10.75	11.75	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Switzerland	5.00	5.00	5.75	8.00	7.50	7.50	7.00	7.00	6.50	6.50	6.50
Argentina	86.75	80.00	77.00	92.60	106.45	86.26	89.00	73.00	73.00	97.33	97.33
Brazil	64.34	59.60	96.45	138.09	145.35	138.89	141.04	143.19	151.80	151.80	151.80
Hong Kong	8.75	14.50	17.00	16.00	16.00	15.00	15.00	14.00	12.00	12.00	12.00
Korea	18.50	18.50	19.50	16.50	13.50	13.50	10.00	10.00	10.00	10.00	10.00
Mexico	17.50	19.00	24.25	31.81	34.39	36.26	54.01	61.39	n.a.	n.a.	n.a.
New Zealand	9.75	11.75	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	14.00	16.00	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	7.65	9.50	13.60	11.83	10.18	10.98	10.98	10.70	10.25	10.03	n.a.
South Africa	11.50	9.50	9.50	17.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Venezuela	10.25	13.00	15.00	15.50	16.50	16.50	16.50	17.00	16.50	16.00	16.50

Domestic government bond yields

long-term issues, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	9.00	10.20	11.46	14.33	13.50	13.57	14.14	13.68	12.46	11.50	10.79
Canada	9.68	11.32	12.69	15.27	14.75	14.72	16.03	15.62	13.96	13.48	12.63
Japan	6.40	8.63	9.04	8.32	7.98	8.31	8.64	8.49	8.41	8.46	8.50
Australia	8.80	10.08	13.00	15.00	16.50	16.50	16.50	16.50	16.25	14.50	14.25
United Kingdom	12.75	13.83	13.05	15.02	13.35	13.07	13.08	13.05	11.20	10.74	10.04
Belgium	8.80	11.13	13.04	13.99	13.66	13.56	13.59	13.13	13.13	13.20	13.23
France	9.94	12.59	14.31	16.44	16.29	16.13	15.98	15.96	15.78	15.76	15.81
Germany	6.65	7.91	9.19	9.71	8.79	8.83	9.33	9.14	8.79	8.00	8.27
Italy	13.04	14.00	16.23	21.39	20.22	20.77	20.78	20.77	20.11	19.18	19.31
Netherlands	8.48	9.29	10.48	11.28	10.08	10.29	10.53	10.50	10.24	10.00	n.a.
Austria	7.91	8.20	9.62	10.37	10.30	10.08	10.01	10.01	10.04	9.59	n.a.
Denmark	17.27	18.28	19.98	20.91	22.41	22.58	22.78	22.29	22.72	22.83	n.a.
Finland	9.19	9.58	10.42	10.98	11.04	11.12	10.84	10.74	10.59	10.64	10.62
Ireland	13.44	16.64	15.63	18.28	18.28	18.28	18.58	17.33	15.93	15.17	13.95
Norway	8.19	10.04	10.44	12.37	13.21	13.26	12.95	12.95	13.16	13.27	13.29
Spain	n.a.	n.a.	n.a.	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.75
Sweden	10.09	11.22	12.61	12.80	12.82	12.79	13.00	13.18	13.23	13.27	13.73
Switzerland	3.03	4.20	4.63	5.40	5.01	4.98	5.19	4.90	4.64	4.43	4.31
Argentina	112.18	47.94	36.84	107.98	69.25	62.77	97.25	151.14	309.96	188.74	242.86
New Zealand	10.02	12.98	12.99	12.55	12.92	12.97	12.99	12.97	n.a.	n.a.	n.a.
Philippines	13.40	13.20	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	9.72	9.32	11.81	13.62	14.22	14.15	14.49	14.70	14.09	12.34	12.32
Venezuela	7.24	7.29	7.39	12.50	12.50	12.75	13.00	13.25	13.25	13.25	13.50

Domestic corporate bond yields

long-term issues, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	9.25	10.75	13.00	15.50	15.13	15.00	15.75	15.25	13.50	12.88	12.00
Canada	10.34	12.07	13.62	16.48	16.65	16.82	17.80	17.27	15.99	14.78	13.61
Japan	6.94	8.34	8.60	7.70	7.43	7.42	7.90	7.90	7.99	8.05	8.10
Australia	10.25	11.65	14.25	16.50	17.50	17.50	17.50	17.75	17.50	16.75	16.75
United Kingdom	13.53	14.96	14.21	16.55	14.86	14.60	14.62	13.86	12.53	12.51	11.68
France	10.27	12.92	15.23	17.33	17.02	16.80	16.67	16.67	16.61	16.83	16.42
Germany	6.80	8.20	9.50	10.50	9.40	9.10	9.30	9.50	9.40	9.30	8.90
Netherlands	8.62	9.95	10.71	11.03	10.16	10.21	10.51	10.65	10.32	10.19	n.a.
Norway	8.37	10.53	11.24	13.36	14.06	12.40	12.90	12.90	14.14	14.94	14.46
Spain	13.49	14.20	14.82	14.76	16.40	16.72	17.98	17.42	17.86	18.36	n.a.
Sweden	10.03	10.21	11.95	12.94	12.89	12.91	12.87	12.90	12.92	12.97	13.16
Switzerland	4.85	5.53	5.63	6.60	5.99	5.82	6.05	6.05	6.12	6.08	5.96
Korea	22.60	27.80	28.20	27.00	18.70	17.10	16.40	13.90	14.00	15.00	n.a.
Venezuela	12.43	14.55	16.15	17.00	17.50	17.75	17.75	18.00	17.50	17.50	17.75

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Morgan Guaranty Trust Company of New York

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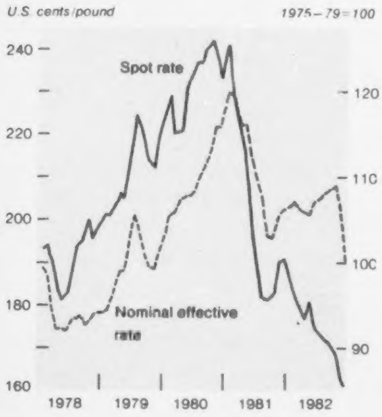

Mrs. Thatcher's Britain: record and evaluation

Prime Minister Margaret Thatcher took office in the spring of 1979 determined to curb inflation and revitalize Britain's strike-plagued economy. The problems her new Conservative Government faced were daunting. Consumer price inflation averaged 12.5% a year during the 1970s, compared with 3.4% in the previous decade. GDP growth averaged 2.2% annually, versus an already laggard 3% in the 1960s. Productivity improvement, at 2% per annum, was far short of the OECD average. Living standards were well below those in much of continental Europe and North America.

Now, three and a half years later, inflation has been greatly reduced and labor productivity has increased remarkably. But the cost in terms of unemployment has been high, and the economy's long-term recovery prospects remain in doubt.

What Mrs. Thatcher and her Government have done holds lessons for economic policies and prospects elsewhere — especially in the United States, where the prescriptions of President Reagan's Administration in some ways parallel those of Mrs. Thatcher.

I. The record

The first two years bring recession

When the Conservatives took office, they put the major blame for Britain's malaise on institutional rigidity and government intervention. In their view, these were manifested in excessive labor union power, timorous management, weakened incentives for enterprise under the weight of redistributive taxation, and a bloated public sector in which efficiency took second place to job preservation.

The new Government adopted money supply targeting to tackle inflation. The public-sector deficit was to be reduced. Public spending was to be cut, and some functions placed in private hands. The tax system was to favor savings over consumption. The private sector was to be freed of restrictions inhibiting competition.

Sterling M3 (sterling deposits of U.K. residents plus notes and coin) was deemed the key measure of money supply because of its apparent superiority over other aggregates in explaining British inflation earlier in the 1970s. In the June 1979 budget, a growth target for this aggregate was set at 7%-11% (annual rate over the following 10 months), a considerable slowing from the 12.7% recorded in the pre-

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Table 1

Monetary targets and performance

annual rate, % changes

	Sterling M3		*Actual*		
	Target range	*Actual*	*Monetary base*	*M1*	*PSL2**
Jun 1979-Apr 1980	7-11	10.3	10.4	4.2	9.8
Feb 1980-Apr 1981	7-11	22.2	10.5	11.2	14.6
Feb 1981-Apr 1982	6-10	13.5	4.7	7.3	12.3
Feb 1982-Apr 1983	8-12	11.5**	2.0**	11.2**	9.0**

*Private-sector liquidity.

**March-November 1982. M1 and PSL2 also are targeted to the 8%-12% range.

ceding 12 months. Lacking direct control of the money stock, the Bank of England hiked its minimum lending rate (MLR) from 12% to 14% and, later in the year when the target appeared to be in jeopardy, to 17%. In the event, the target was narrowly achieved (see Table 1), but only with the support of "corset" restrictions, which penalized rapid growth of the banks' liabilities but encouraged disintermediation. Bankers' acceptances, for example, rose 70% during 1979.

Unhappily, inflation soared. Much at fault was the adoption of the public-sector pay recommendations of a study commission appointed by the previous Government. These led to earnings increases for civil servants during 1979-80 of up to 24.5%, behavior that could not be limited to the public sector. Also provocative of inflated wage expectations was the hike in value-added taxes enacted to finance income tax cuts.

The resulting surge in unit labor costs (which even in 1978 had considerably exceeded output price rises) and in such other costs as oil, public-service charges, and interest expenses, placed unbearable pressure on manufacturing-sector liquidity and profitability. Against the appreciated exchange rate, it was impossible to raise selling prices sufficiently to compensate for these increased costs. Business confidence nosedived during the second half of 1979, and an extraordinary round of inventory liquidation was unleashed.

The following March, the Government introduced its Medium Term Financial Strategy (MTFS). To reduce inflation expectations, the strategy emphasized a firm commitment to progressive deceleration of money supply growth. The sterling M3 target was left unchanged at 7%-11% for 1980-81 and lowered to 4%-8% for 1983-84. Public spending, taxes, and interest rates were to be subordinated to the money supply policy, from which "there would be no question of departing."

But over the 1980-81 target period, actual growth of sterling M3 surpassed 20%. Two or three percent of the overrun resulted from reintermediation following abolition of the corset in June 1980. A quarter of the money stock increase was directly associated with public borrowing not funded by debt sales to the nonbank public. The dominant source of money growth was bank lending to the private sector, especially to meet the needs of companies whose financial position greatly deteriorated during 1979-80. At the same time inflation and increased real earnings prompted a sharp rise in personal savings; a major fraction lodged in bank deposits, attracted by competitive interest rates.

The fact that M3 exceeded the official target by so wide a margin did nothing for policy credibility and probably helped keep interest rates up. More serious, it obscured what was actually a savage monetary squeeze. Both the monetary base and M1 decelerated sharply, and there also was slowing in PSL2, the wide measure of private-sector liquidity. There were other indications of monetary tightness. Sterling rose almost continuously. The dollar rate advanced from $2.06

Table 2

Public-sector borrowing requirement (PSBR)

billions of pounds

	Target	*Actual*	*Actual as % of GDP*	*General government deficit as % of GDP*
1978-79		9.2	5.5	4.0
1979-80	8.3	9.9	4.8	2.6
1980-81	8.5	13.2	5.7	3.7
1981-82	10.5	8.5	3.5	2.0
1982-83	9.5	9.0*	3.2	
1983-84	9.0		2.8**	

*Treasury projection, November 1982.

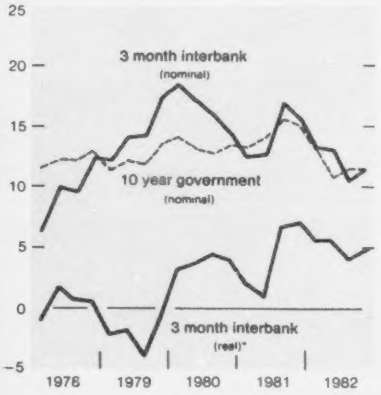
**Target.

when Mrs. Thatcher took office to above $2.40 in January 1981. The real effective exchange rate surged 30% over the same period, from an index level of 111 to 144 (1975-79 =100; see chart). The appreciation was propelled by favorable perceptions of the new Government, by sterling's "petrocurrency" status as oil prices rocketed upward, by Britain's shift into current account surplus, and by the magnetism of high interest rates. Moreover, in late 1979 interest rates turned decidedly positive in real terms, at least from the perspective of the manufacturing sector whose prices were being restrained by the exchange rate appreciation.

An integral feature of the financial strategy was reduction of the public-sector borrowing requirement (PSBR). In its first budget the Government had aimed to bring the PSBR down to 4% of GDP from the 5.5% recorded in 1978-79 (see Table 2), while implementing Conservative ideas on tax and supply-side issues. It lowered the standard rate of personal income tax from 33% to 30% and cut the marginal levy on high earned incomes from 83% to 60%. Indirect taxes, however, were raised sharply to more than recoup the direct tax revenue loss. Public spending was to be held unchanged in real terms and nationalized-industry borrowing curtailed by more realistic pricing.

U.K. interest rates

end-of-quarter data, percent per annum



*Nominal rate adjusted for the average of manufactures wholesale price inflation in the previous 6 months and in the subsequent 6 months.

Although these objectives were not met (primarily because of outsize wage increases, huge interest payments, and the onset of recession), the PSBR did shrink to 4.8% of GDP. The Government then aimed for 3.7% of GDP in its 1980 budget. Instead, borrowing leaped to 5.7% because of the effects of recession, a shortfall in revenue from North Sea oil, and overruns on defense and public-sector pay.

Between first-half 1979 and early 1981, general activity slumped a cumulative 5.6%, mainly through a 15% slide in manufacturing production (see chart). By mid-1981 the unemployment rate had doubled to over 10% of the labor force. The shakeout bred belated moderation of wage behavior. Yet throughout the downturn labor earnings continued to advance in real terms. Unit labor cost increases and sterling appreciation sustained pressures on profitability.

Fiscal squeeze intensified

In the teeth of recession, the Thatcher Government chose to tighten fiscal policy. According to the reasoning on which the financial strategy was based, this would permit noninflationary lowering of interest rates. For a time the results looked encouraging. In the 1981 budget, a two-point cut in MLR was announced (prior reductions had been made in the second half of 1980). Sterling depreciated from $2.40 in January to $2.18 in April. Inventory liquidation slackened early in 1981, halting the output decline. Business confidence rose and there were official hopes of imminent recovery. Unhappily, no recovery worth the name has since emerged.

The target PSBR for 1981-82 was set at 4.25% of GDP. Although this was an increase from the 3% of GDP originally envisaged, it actu-

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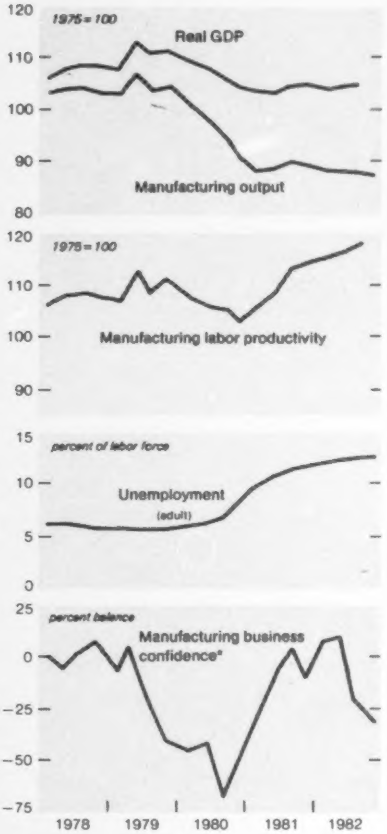
Britain's output, productivity, unemployment, and business confidence



*Percent of survey respondents more optimistic about their general business situation minus percent less optimistic.

ally represented a substantial contraction relative to the 5.7% outcome in 1980-81. Given past failure to reduce public spending, the new fiscal target required increased taxes. Personal income taxes were raised by skipping adjustment for the prior year's inflation. Indirect taxes also were raised in real terms.

Britain's 1981-82 fiscal stance proved even more restrictive than planned. For more than 12 months following the March 1981 onset of a civil service dispute, the normal pattern of tax receipts and Government outlays was disrupted. This robbed the Government of the means to monitor the progress and significance of both the PSBR and sterling M3. Despite the weak economy, the PSBR wound up £1.5 billion below target. The shortfall — more than 0.5% of GDP — partly reflected the boost to oil revenue from sterling's depreciation, while oil prices held relatively firm in dollar terms.

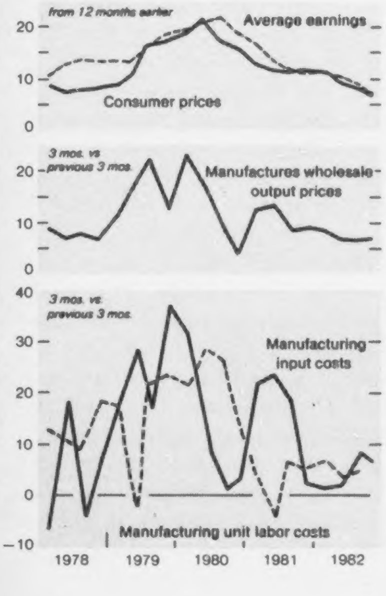
Because the civil service dispute distorted the monetary aggregates, the focus of monetary policy switched to the exchange markets, where sterling was flagging. The dollar rate dropped from $2.09 in May 1981 to $1.80 that September. U.S. and other foreign interest rates were rising while domestic rates were held down. A sterling crisis threatened. Turning the tide required a four-point jump in base rates in September-October 1981, setting sterling on a generally appreciating course in effective terms for the next 12 months. Temporarily replacing the unreadable sterling M3, the exchange rate resumed an explicit role in U.K. monetary policy: the authorities were determined to limit inflationary depreciation but effectively stifled recovery.

The March 1982 version of the financial strategy betrayed disenchantment with money supply targeting. The sterling M3 target for 1981-82 had been set at 6%-10%. The actual outcome was 13.5%. Yet nominal GDP was slowing more sharply than anticipated. The Government no longer believed in a simple short-run relationship between nominal GDP and money supply, on any definition. Complications included increased preference for liquid savings and the effects of deregulation and structural change in financial markets. For example, banks had expanded activity in housing finance.

Accordingly, in place of the original 5%-9% sterling M3 target, the amended strategy for 1982-83 aims at 8%-12% growth in all three principal aggregates; at least some should conform. Further, but in an unspecified way, monetary policy is to "take account of all the available evidence," including the exchange rate.

Policy results

To date the monthly figures show M1 and sterling M3 grazing the high end of the current target range. Attaining this semblance of monetary aggregate control and lower short-term interest rates has relied to a great extent on "overfunding" of the PSBR. The authorities sell long-term debt over and above the PSBR to the nonbank public, at the same time purchasing short-term commercial bills. The bill purchases provide credit needs of private industry that would otherwise be met by bank lending. Overfunding is said to accommodate a structural imbalance: private borrowers seek floating-rate finance, while private lenders prefer long-term fixed-rate or indexed instruments. Critics maintain that this intervention steepens the yield curve, discourages private bond markets, displaces bank business, and could also be costly to the taxpayer.



Prices, earnings, and manufacturing costs
percent change at annual rates

Nevertheless, until recently all British interest rates were dropping remarkably. Interbank rates, which stood above 16% in October 1981, were down to 10.5% in mid-December 1982, having been as low as 9% in November. Yields on long-dated government securities came down almost as much, from just under 16% to 11.5% (see chart). Because yields on inflation-indexed bonds firmed slightly, there was evidently a sharp decline in inflationary expectations.

The 12-month rise in consumer prices, over 15% at end-1980 and still 12% a year later, decelerated swiftly to 6.3% last November. The index has benefited from the lower interest rates, weak world commodity prices, and a strong exchange rate. Crucial, however, has been the moderation of wage behavior during the past two years. In the private sector, especially in manufacturing, vanishing profitability and job losses have forced more realistic bargaining. In the public sector, the Government has assumed a far more rigorous approach to pay settlements. For the first time since 1978, public-sector settlements have been running below earnings gains in the private sector.

Productivity has shown considerable improvement. Output per hour in manufacturing, off 4% in the downswing of the recession, jumped 12% between late 1980 and the third quarter of 1982. The improvement, greater than occurred at a similar stage of the mid-1970s recession, has reflected both massive closure of uneconomic capacity and improved work practices. Because capacity shedding provides a one-time gain in productivity, many are skeptical. But some observers also discern an enduring improvement in Britain's trend rate of productivity growth. The productivity benefit to inflation is already clear. After surging more than 20% during 1980, manufacturing unit labor costs rose a mere 3% through 1981 and not much faster in 1982.

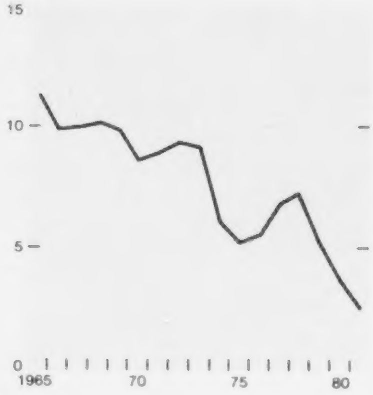
The good news on productivity has less happy aspects. The absence of output recovery has slashed manufacturing jobs by almost a quarter since early 1979. Official statistics, which understate unemployment, now show the adult rate at 12.5% and still stubbornly rising.

Inadequate profitability and poor external competitiveness are the key obstacles to employment recovery. In 1981 industrial and commercial companies, excluding their North Sea oil activities, earned a pretax real rate of return on assets of less than 3%, compared with 7% as recently as 1978 and 10% or so in the 1960s (see chart). Cost control achieved some small improvement in profitability in 1982. Prospective profitability on new investment may be better, because industry still has much to do in adapting to higher labor and energy costs. Such adjustment underlies the comparative resilience of fixed investment in this recession. Investment in capacity expansion, by contrast, awaits recovery of demand. It is also deterred by high capital costs. Seen against the slowing of inflation, the 1982 decline in nominal interest rates, while helpful in itself, left British interest rates high in real terms (see chart).

North Sea oil has been a major factor undermining the external competitiveness of British industry. Between 1979 and 1982, U.K. net oil exports climbed $7.5 billion, and sterling's strength brought a sharp terms of trade gain. The current account, in deficit by $3.5 billion in 1979, posted a $12 billion surplus in 1981 and was in surplus at an annual rate of $7 billion in the third quarter of 1982. By contrast, in vol-

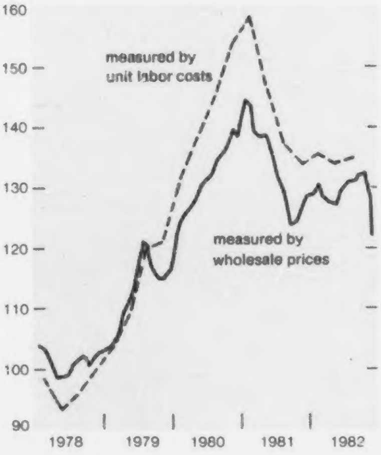
Industrial profitability

excluding North Sea oil activities, real pre-tax rate of return on assets, in percent



Real effective sterling exchange rate

Index 1975–79=100



ume terms external trade trimmed more than 1% from overall GDP between 1979 and the 1982 third quarter. Exports of manufactures were down 7%, much more than the slippage in world manufactures trade. U.K. imports of manufactures climbed 14%, despite a 2% decline in U.K. total demand.

Other evidence of weak competitiveness comes from comparison of British unit labor costs in manufacturing relative to those of competitors. On an index basis (1975-79=100), British relative costs rose from 100 at the end of 1978 to a peak of 158 in first-quarter 1981, the result of the U.K. wage explosion and sterling appreciation. Relative manufactures selling prices rose much less, erasing profitability. Wage moderation, productivity gains, and sterling depreciation in 1981 brought the labor cost index down to 134. Over the first three quarters of 1982 there was no further recovery in competitiveness: British labor costs were still rising slowly, but foreign cost trends were moderating and sterling was firm on an effective basis. Thus the real exchange rate remained crippling for many British firms.

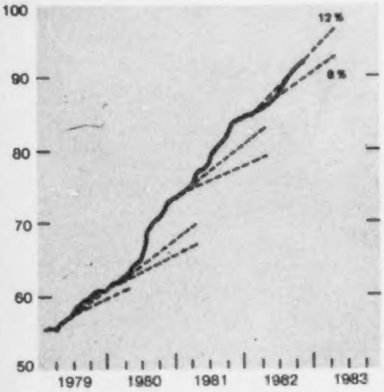
For much of 1982 official statements stressed restoration of competitiveness through further wage moderation and productivity improvement. With other countries following the same tack, however, it was increasingly evident that this virtuous course promised glacially slow competitive benefit for U.K. producers. Accordingly, there was little grief at the sudden 6% effective depreciation of sterling during November. This was sparked by short-lived interest rate reduction, talk of oil price weakness, and market fears of policy laxity. Ever concerned with inflationary expectations, the Government halted the slide in the sterling-dollar rate by raising interest rates once again. In December sterling eased further against EMS currencies and the yen. Even so, sterling enters 1983 with its real effective exchange rate more than 20% above its 1975-79 average.

II. Evaluation

Monetarism in flux

Monetarism, which takes a long-run view of economic problems, has been a major influence shaping policy formation and financial market behavior in both Britain and the United States since 1979. It is worth recalling its basic propositions: 1. in the long run, money affects the price level but not the growth rate or level of physical output; 2. in the short run, by contrast, changes in the stock or growth rate of money can cause fluctuations in real output; 3. the market economy is inherently stable but not necessarily quick to adjust to shocks, monetary or other. The major policy prescription is to limit money supply growth in order to control inflation and reduce uncertainty. Operationally, the advice has been to improve market adjustment mechanisms and to provide steady and predictable growth in money to control nominal GNP.

Observers in both Britain and the United States, however, have come to the conclusion that the velocity relationship that held in the past between money GNP and any particular aggregate may have shifted. Few predicted the extent of the 1981-82 declines in velocity in Britain, the United States, and in other major countries as well. One cannot be confident that velocity will snap back, when there are pervasive fears of depression. Financial market deregulation and innovation provide further reason to question the historical link between money and spending. Thus, success in controlling the money supply, an *inter-*


Sterling M3 targets and performance
in billions of pounds

mediate target, may not yield satisfactory behavior of nominal GNP, the *fundamental* objective.

Institutional changes also contribute to the difficulty of controlling monetary aggregates and of assessing their interrelationships. Repeated overshoots of sterling M3 have robbed targeting of credibility and have minimized any constructive influence on inflationary expectations that the multiyear financial strategy was intended to provide.

Monetarists contend that deficient operating procedures, based on judgmental (albeit more flexible) adjustment of interest rates as the instrument of money supply control, contribute to money supply overshoots and undershoots. Operating procedures, in the eyes of many monetarist critics, would be better keyed to monetary base control. This would secure quantitative control of that narrowest of monetary aggregates but not necessarily of the broader aggregates, let alone of nominal GNP.

Aggregate targeting was intended to lessen central bank discretion in the conduct of monetary policy. In practice, targeting of monetary aggregates (or, for that matter, interest rates) raises a host of discretionary issues. Are the inevitable deviations from steady progress temporary and self-correcting, or do they call for policy response? Over what time span will unacceptable deviations be corrected? To what extent shall realized deviations be accommodated in target revisions? Shall targets be annual in nature, or for shorter or longer periods? How do the reactions of the authorities and of market participants to deviations affect the relationship of the targeted aggregate to nominal GNP? Does the existence of targets, credible or otherwise, affect that relationship? If several aggregates are targeted, how will their divergent behavior be interpreted? Lack of clear-cut answers has been a source of constant confusion to both the markets and the authorities. Perverse policy actions and market responses have been frequent.

Although monetary restraint certainly played the leading role in bringing down inflation so strikingly during 1982, both in Britain and the United States, money supply performance can no longer be the exclusive test of monetary policy. The world recession has proved unexpectedly severe and prolonged, with only a mild recovery in prospect for 1983 or perhaps even 1984. There is little doubt that even moderate economic recovery requires a lower level of real interest rates than yet prevails. Liquidity pressures on business enterprise are acute. The international financial system is under strain unparalleled in the post-World War II period. Lower interest rates have therefore become an overriding necessity, not only for industrial but also for developing countries. Monetary policy in this sensitive environment is more sensibly gauged by a range of indicators: interest rates, exchange rates, prices, and the real economy, in addition to the monetary aggregates and the development of nominal national income.

Fiscal overkill and the public sector

British fiscal policy has been dedicated to a financial strategy that views the crowding-out effects of budget deficits as more harmful than their reflationary effects.

Successful reduction of the public-sector deficit amid deep recession has been a remarkable accomplishment. In contrast to the experience of most industrial countries, Britain's general government deficit is down from 4% of GDP in 1979-80 to less than 2% in the current fiscal year. By itself, the reduced public claim on credit markets is a constructive development that should free domestic savings for productive business investment.

Still, the British experience shows that although reduced government borrowing diminished potential crowding out, extreme fiscal contraction does not necessarily boost business investment. In cyclically adjusted terms, the fiscal squeeze may have approached a net 10% of GDP since the Conservatives took office. Deficient demand contributed to excess capacity and to the weak profitability and financial position of industry. Thus, narrowing of the PSBR has been a major force deepening and prolonging the recession, and it is by no means certain that it has brought or will bring a better financial climate for business investment.

Besides the fiscal overkill, Government policy has produced a sharp increase in the tax burden. In 1981 taxes absorbed 39% of GDP, versus 34% in the year before the Conservatives took office. The Government has salvaged something of its commitment to reduce personal income taxes at the price of substantial increases in payroll, property and indirect taxes, as well as increasing oil revenue.

Control of public expenditure in Britain is an unceasing challenge. The Government hopes to achieve a token reduction in the public spending share of GDP in 1983, but that share will still be higher than under the previous Labour Government. The GDP decline is partly responsible. The Government, misled by the assumed expectations benefits of money supply policy, was at first neglectful of its managerial responsibility for pay levels in the public sector. Only now are the rigorous public pay policies of the past two years redressing the balance between public- and private-sector wages.

The other principal impediment to spending restraint is lack of an adequate public-sector equivalent to market discipline. The Thatcher Government has succeeded in returning a number of lesser public enterprises to the private sector and is encouraging private provision of some public services. With the exception of coal mining, exacting financial standards have been forced on overmanned and declining public industries, inducing necessary shrinkage; some may eventually be viable in private hands. The traditional public monopolies pose considerable challenge: some may be divisible into competitive and regulated parts. Social and administrative services are least tractable. Much public spending cannot feasibly be "privatized." Even in the least market-oriented areas, however, the Conservatives' introduction of cash limit control on spending is providing useful discipline. In all, Mrs. Thatcher's Government has brought an imaginative, even radical approach to the public sector that in the future could pay considerable efficiency dividends.

Implications for the United States

Both the Thatcher and Reagan Administrations began their terms with rigid monetarist views. Attachment to a single indicator for monetary policy was helpful in winning and sustaining public support for the battle against inflation. With inflation now much reduced, yet with industry still facing grave difficulties and business confidence eroding, a more pragmatic approach is bound to emerge. British policymakers, earlier than those in the United States, saw the inadequacy of simple rules for determining monetary policy. Displaying a certain agnosticism, the British authorities now consider a range of indicators, including interest rates and the exchange rate in addition to a host of monetary aggregates.

To date, the U.S. authorities have taken only a tentative step in rethinking monetary policy. The Federal Reserve has deemphasized the narrow money supply for the time being. But it has not explicitly stated its longer-term intentions, and may even revert to M1 targeting. As a result, there is now confusion in the markets about the objectives of Fed policy and how they will be achieved.

Tight monetary policies in both Britain and the United States have contributed to sharp currency appreciation in real terms. Appreciation lowered inflation but weakened external competitiveness and cut into output and employment. Thus, in solving one problem, restrictive monetary policy has created another. Avoidance of excessive, erratic movements in real and nominal exchange rates requires better understanding and recognition of the relationship between monetary policies and exchange rates. Rather than resort to stepped-up intervention in vain pursuit of target exchange rates, the focus should be on bringing about the convergence of monetary policies among industrial countries that was intended to follow the 1982 Versailles summit.

The surprisingly quick deceleration of inflation during 1982, both in Britain and the United States, has been achieved amid massive increase in unemployment. Britain's adult unemployment rate stands at 12.5% and will certainly rise further in the months ahead. Similarly, in the United States there must be concern that the mainstream projections for unemployment to average around 11.5% in 1983 will again prove too optimistic. Distress in the manufacturing sector is too acute, and its prospects for participation in an overall recovery too uncertain, to allow confident prediction.

Yet, policymaking is at an impasse. Governments have not developed a convincing strategy to tackle unemployment without rekindling inflationary fears. The Thatcher Government's hopes for spontaneous output recovery in the new environment of low inflation have been disappointed. Supply-sider hopes of benefit from the 1982 U.S. tax cuts equally have been frustrated: GNP was down 1.8% in 1982 and 1983 growth in the U.S. economy could be under 2%. In facing the policy impasse the temptation to seek a "quick fix" solution, while understandable, should be resisted. There is none. Extravagant promises cannot and should not be made for new policy initiatives. But policy need not be helpless to arrest decline.

The first need, as noted, is for more flexibility of monetary policy. Clearer articulation of the recent changes in Federal Reserve policy might be helpful in bringing down interest rates, which would encourage more relaxed monetary policies in Europe and lessen the debt servicing burden on developing countries. This also could bring a somewhat weaker dollar, which would help defuse the protectionist momentum in the United States that poses a serious threat to world recovery.

Second, the recession is poor reason to abandon attempts to curb public spending. Both Mrs. Thatcher and President Reagan sought a major reduction in the role of government to unleash private initiative and business investment. Yet not even these ardent proponents of smaller government have been able to do more than slow the growth of government spending. In Britain that continued growth has led to an increase in taxes and lower private demand. In the United States, by contrast, the growth in spending has been accompanied by wide-ranging tax cuts. These not only failed to generate adequate pressure for spending cuts, but also undermined aggregate demand by forcing up interest rates. Without first cutting government spending there is no sound basis for sustained reduction in the tax burden.

Third, a more considered approach to government deficits is needed. Deficits should be judged with understanding of the economic cycle and in relation to the savings behavior of other sectors. In cyclically adjusted terms, Britain's public sector is in substantial surplus, the more so if allowance is made for the effects of inflation in swelling interest payments. While higher taxes in Britain have lessened potential crowding out, deficient demand deters business investment. Britain has evident scope to ease fiscal policy, as also does Japan. The same cannot be said of the United States. Although the greater part of the federal deficit is cyclical in origin, there is a structural imbalance of serious proportions. The United States urgently needs a credible fiscal program to narrow its long-range structural deficit.

Fourth, to improve the possibilities for noninflationary growth, more attention should be directed to improving the functioning of labor markets. It should be a matter for surprise that, in a time of very high unemployment, real wages still are rising in most industrial countries. In this disinflationary period, the moderation of nominal wage expectations of people in work has lagged the actual slowing of inflation. In a period of sweeping structual change in the older industrial countries it is questionable whether employment can recover fully in this decade without some reduction of real labor costs. Unions, management, and governments should recognize more openly the existence of a trade-off between further increases in real wages and the recovery of employment.

Employment recovery prospects also could be enhanced by redirection of policies that add to the total cost of labor to employers. Employment is discouraged if the burden of social benefits financing is levied disproportionately upon employers, as in Britain and many European countries. Minimum wage laws, closed shop requirements and other institutional rigidities further deter reemployment.

In sum, while adjustment of the industrial economies to roaring inflation and the second oil shock was bound to be painful, the disinflationary process has suffered from several policy excesses. Fiscal overkill is as "dangerous to economic health" as are improvident tax cutting and profligate government spending that lead to high real interest rates. Correcting these policy excesses is the main task for 1983, in order to avoid further economic decline, to contain protectionism, and to stabilize the international debt situation. Even with a better balance of policies the industrial countries still face subdued economic growth and very high unemployment for some time to come.

Statistical appendix

for key to data in tables see November 1982 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Effective exchange rates

Index numbers, March 1973=100. The index of the effective exchange rate for a currency is a measure of that currency's trade-weighted average appreciation or depreciation vis-à-vis the currencies of 15 other major countries. The exchange rates used in the construction of this index are the averages of daily noon spot exchange rates in New York for months and for weeks ending on dates shown. The trade weights used are based on 1976 bilateral trade in manufactures.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
pre-June 1970 parities	118.5	94.9	79.3	116.2	91.6	97.5	110.9	95.9	98.2	88.3	97.8	97.9	98.1	102.2	92.2	98.4
Smithsonian central rates	107.0	101.3	88.7	116.0	95.4	96.1	108.3	97.0	99.1	91.6	98.0	96.0	96.3	100.5	91.7	98.1
1981																
December	107.7	84.9	123.9	77.7	137.0	82.4	46.0	104.9	118.8	186.4	122.0	86.4	107.7	81.3	81.2	63.2
1982																
January	109.2	84.6	121.5	78.0	137.0	81.9	45.9	104.6	118.7	186.2	122.2	85.6	107.8	81.4	80.8	63.2
February	112.3	83.5	117.6	78.5	136.8	81.8	45.9	102.0	118.8	186.8	121.9	84.5	108.8	81.6	80.7	63.3
March	114.1	83.3	115.6	78.0	139.1	81.9	45.6	95.8	120.6	190.0	122.4	83.1	109.6	81.9	80.1	61.9
April	115.2	83.2	115.0	77.5	140.4	81.6	45.2	95.1	120.3	185.0	123.1	82.9	110.0	81.8	80.3	61.8
May	113.6	82.3	117.2	77.4	141.6	82.3	45.2	95.7	120.7	180.9	123.6	84.1	109.2	81.4	79.3	62.1
June	118.8	80.2	112.9	78.5	142.0	78.9	45.0	95.4	121.6	178.1	123.8	82.5	110.1	81.9	80.2	61.4
July	119.9	80.7	112.1	78.8	142.6	76.8	45.1	95.6	122.0	179.7	124.1	82.0	108.8	82.0	79.3	61.1
August	119.8	82.5	110.9	78.9	142.8	76.5	45.0	95.3	122.8	179.6	124.3	81.7	104.2	82.7	77.3	61.2
September	120.4	83.3	109.7	79.2	143.2	75.8	45.0	94.8	123.6	179.1	124.6	81.3	102.0	82.6	76.4	61.4
October	121.9	83.9	107.2	80.0	144.4	76.0	44.7	94.5	124.9	179.5	124.2	83.5	102.2	73.0	76.5	61.1
November	121.9	84.3	110.9	77.6	144.8	76.3	44.2	94.6	125.3	180.0	125.9	84.7	103.1	70.3	76.6	59.6
November 5	122.7	84.6	105.9	79.8	144.3	76.2	44.3	94.6	125.2	178.9	125.8	84.3	102.7	70.7	76.7	60.5
12	122.6	84.7	108.5	79.4	144.1	76.0	44.1	94.5	125.1	179.0	125.8	84.2	102.9	70.6	76.7	60.0
19	122.0	84.5	111.7	77.1	144.6	76.2	44.1	94.8	125.6	180.5	126.0	84.8	103.1	70.3	76.6	59.4
26	120.9	84.0	115.7	75.4	145.6	76.7	44.2	94.3	125.4	180.8	126.0	85.2	103.4	69.9	76.3	59.2
December 3	119.7	83.1	116.7	75.5	146.6	77.2	44.3	94.2	125.4	182.4	126.3	85.3	103.9	69.6	76.0	58.6
10	119.1	82.9	118.8	74.6	146.9	77.3	44.6	94.9	125.8	184.4	127.0	86.1	103.8	69.6	76.0	53.8
17	119.2	83.1	118.6	74.4	147.2	77.4	44.6	94.8	125.8	184.4	126.8	85.9	103.1	69.5	76.0	53.5

Real effective exchange rates

Index numbers, March 1973=100. The index of the real effective exchange rate is the index of the effective exchange rate adjusted for inflation differentials which are measured by wholesale prices of nonfood manufactures. Exchange rates and trade weights used in the construction of this index are the same as those used for effective exchange rate indices. Annual figures are averages of months.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
1978	96.3	92.1	106.9	106.3	103.5	97.4	89.8	98.6	104.1	124.0	109.1	102.7	98.0	96.4	89.5	97.2
1979	96.3	92.1	95.7	118.4	103.9	98.9	93.0	95.8	100.5	116.8	107.6	100.7	92.6	99.0	88.2	109.0
1980	98.0	91.3	93.4	137.9	100.8	100.6	95.9	90.6	97.1	106.5	108.2	93.3	94.8	100.5	89.7	103.1
1981	108.7	91.4	94.3	140.9	96.6	98.0	91.2	85.0	93.1	105.5	106.1	89.1	99.2	101.3	98.9	97.6
1981																
December	109.3	93.1	93.3	135.2	98.6	97.6	89.4	83.7	94.2	113.9	105.9	89.7	100.2	95.3	99.5	97.8
1982																
January	110.8	92.8	90.5	135.8	98.0	97.3	89.7	82.7	95.9	112.4	106.4	87.6	102.2	96.7	99.7	98.5
February	113.1	92.1	87.4	136.7	97.1	98.5	90.5	80.5	95.7	112.2	106.0	86.6	103.5	97.6	101.0	99.0
March	114.4	92.3	85.7	135.6	98.1	98.4	90.0	77.4	96.7	114.0	107.3	85.8	102.9	98.2	101.3	98.0
April	114.8	92.9	85.1	134.7	98.6	98.9	89.5	77.1	96.2	111.0	107.6	86.2	103.8	98.1	102.0	98.3
May	112.7	92.1	86.4	134.3	99.2	100.6	89.6	77.9	96.4	108.5	107.8	86.8	103.5	97.7	101.3	99.7
June	118.6	89.3	82.5	136.2	99.7	96.4	88.9	77.6	96.9	107.1	107.3	86.3	103.2	97.7	102.8	99.1
July	120.3	89.4	81.3	137.0	99.9	94.3	89.3	77.4	96.9	107.3	107.6	85.8	101.8	98.3	102.4	99.2
August	120.6	90.8	80.4	137.2	100.1	93.3	89.7	77.1	97.3	107.3	107.7	86.1	97.7	99.2	100.5	99.8
September	120.0	92.7	79.7	138.1	100.6	92.7	90.3	75.7	97.7	107.2	107.7	86.0	96.6	98.7	100.0	100.0
October	123.0	92.0	77.3	139.7	100.9	92.9	90.2	75.2	98.7	107.1	107.2	88.4	96.5	88.6	100.6	99.9
November	123.0	92.4	79.8	135.8	101.4	93.2	89.4	75.1	98.8	107.3	108.6	90.2	97.9	84.8	101.3	97.9

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, and Singapore billions of dollars (rounded to nearest $5 billion), at end of period

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	
										Mar	Jun
Estimated size											
Gross	315	395	485	595	740	950	1 235	1 525	1 860	1 930	1 900
Liabilities to nonbanks	55	80	90	115	145	190	260	345	440	455	n.a.
Liabilities to central banks	40	60	65	80	100	115	145	150	130	120	n.a.
Liabilities to other banks[a]	220	255	330	400	495	645	830	1 030	1 290	1 355	n.a.
Net	160	220	255	320	390	495	590	730	890	900	905
Claims on nonbanks	70	105	130	165	210	265	330	425	530	540	n.a.
Claims on central banks and on banks outside market area[b]	70	95	105	130	150	185	200	230	275	275	n.a.
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	20	25	30	45	60	75	85	85	n.a.
Eurodollars as % of gross liabilities in all Eurocurrencies	74	76	78	80	76	74	72	75	78	79	n.a.

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov
Eurodollar:											
overnight	10.62	14.00	19.25	12.87	13.62	14.88	11.50	9.00	10.50	9.50	8.88
7-day fixed	10.62	14.00	19.75	13.00	14.00	15.38	11.75	9.25	10.50	9.50	9.00
one month	11.00	14.37	19.12	13.31	14.38	15.44	12.13	10.94	11.00	9.62	9.38
three months	11.69	14.44	17.55	13.75	14.38	15.81	13.06	11.88	11.44	10.00	9.88
six months	12.31	14.44	16.37	14.81	14.44	16.00	13.38	12.44	11.94	10.19	10.13
twelve months	12.00	12.87	14.87	14.75	14.44	16.00	14.06	12.87	12.19	10.50	10.38
Euromark:											
one month	3.19	8.50	8.87	10.44	8.56	8.87	8.87	8.12	7.62	7.00	7.19
three months	3.31	8.56	8.87	10.50	8.56	9.00	8.87	8.19	7.75	7.00	7.06
six months	3.69	8.56	8.87	10.56	8.56	9.12	9.12	8.44	7.94	7.00	7.06
twelve months	3.81	8.12	8.93	10.25	8.50	9.25	9.12	8.44	7.94	6.94	7.00
Euro-Swiss franc:											
one month	—.06	5.19	6.00	8.87	3.63	4.37	3.25	3.25	3.81	3.00	3.94
three months	0.00	5.75	6.00	9.25	4.25	5.06	4.25	4.00	4.37	3.56	4.06
six months	0.12	5.87	5.75	9.25	4.94	5.94	5.12	4.88	4.81	4.12	4.06
twelve months	0.62	5.56	5.50	8.50	5.06	6.00	5.12	4.94	4.81	4.19	4.19
Eurosterling:											
one month	12.00	16.75	14.75	15.37	13.37	13.00	11.88	11.00	10.88	9.87	10.44
three months	12.62	16.75	14.75	15.69	13.37	13.06	11.81	10.81	10.50	9.44	10.44
six months	13.25	16.75	14.25	15.69	13.37	13.06	11.81	10.81	10.50	9.44	10.38
twelve months	13.00	15.25	14.00	15.37	13.37	13.13	11.94	10.81	10.50	9.44	10.31
Euro-French franc:											
one month	10.50	13.87	11.12	15.75	29.50	15.50	14.75	21.00	16.25	20.00	19.50
three months	9.87	14.00	11.75	17.00	26.75	16.75	16.00	23.75	18.00	20.00	19.75
six months	9.87	14.12	12.25	18.00	23.75	18.00	17.37	22.75	19.00	20.00	20.38
twelve months	10.25	13.75	12.87	18.25	23.75	18.63	18.00	21.00	19.25	19.00	20.00
Euroyen:											
one month	—.69	7.32	9.12	6.12	7.06	7.25	6.69	7.06	7.00	6.75	7.31
three months	0.62	8.31	9.25	6.12	7.12	7.25	7.12	7.31	7.25	6.87	7.25
six months	1.87	8.62	9.62	6.87	7.12	7.31	7.38	7.44	7.50	6.94	7.19
twelve months	2.19	7.94	9.37	6.87	7.38	7.25	7.12	7.44	7.56	7.00	7.19

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1979	1980	1981	1982			Jan-Dec	
				Oct[r]	Nov[r]	Dec[p]	1982	1981
Industrial countries	**27 248**	**39 100**	**86 022**	**3 474**	**1 615**	**1 527**	**42 372**	**86 022**
Australia	941	2 475	1 680	310	150	225	4 671	1 680
Canada	1 845	1 743	4 112	443	—	60	3 838	4 112
Denmark	1 205	1 720	1 661	—	—	—	770	1 661
France	2 955	1 745	3 912	168	70	21	5 611	3 912
Greece	1 009	1 333	1 039	—	20	—	770	1 039
Ireland	687	237	1 361	27	—	—	401	1 361
Italy	3 708	6 268	6 030	120	302	153	3 457	6 030
Norway	935	685	713	200	—	100	2 069	713
Portugal	887	745	1 590	42	80	150	1 388	1 590
Spain	4 184	5 457	3 242	200	220	194	1 806	3 242
Sweden	1 263	1 370	1 867	—	174	50	649	1 867
United Kingdom	795	1 470	747	736	80	—	1 635	747
United States	2 348	6 719	54 784	710	230	450	6 546	54 784
Others[a]	4 486	7 133	3 284	518	289	124	8 761	3 284
Developing countries	**47 964**	**35 054**	**45 239**	**2 382**	**2 387**	**779**	**39 053**	**45 239**
Non-OPEC countries	35 411	24 009	33 369	1 231	1 567	673	26 702	33 369
Argentina	2 965	2 506	2 534	—	—	—	465	2 534
Brazil	6 278	4 158	5 751	612	485	203	5 603	5 751
Chile	867	1 322	2 204	305	—	—	1 194	2 204
Colombia	754	608	1 005	—	—	70	227	1 005
Korea	3 258	1 917	2 824	122	340	99	2 899	2 824
Malaysia	1 168	—	1 725	—	15	72	1 909	1 725
Mexico	8 243	5 971	7 530	3	450	15	7 953	7 530
Peru	596	480	1 407	40	—	—	1 069	1 407
Philippines	2 067	1 056	1 257	—	52	55	635	1 257
Taiwan	1 063	314	928	—	—	—	255	928
Other	8 152	5 677	6 204	149	225	159	4 493	6 204
OPEC countries	12 553	11 045	11 870	1 151	820	106	12 351	11 870
Ecuador	593	1 209	934	—	—	—	815	934
Indonesia	1 061	1 435	725	275	29	59	1 035	725
Nigeria	1 373	1 330	1 802	70	27	27	2 017	1 802
United Arab Emirates	401	101	363	—	—	—	93	363
Venezuela	6 830	6 715	7 559	780	164	20	6 799	7 559
Other	2.295	255	497	26	600	—	1 592	497
Communist countries	**7 325**	**2 809**	**1 791**	—	**10**	**33**	**715**	**1 791**
China	3 395	181	370	—	10	33	43	370
East Germany	796	303	470	—	—	—	8	470
Hungary	260	550	550	—	—	—	290	550
Poland	849	800	—	—	—	—	—	—
Other[b]	2 025	975	401	—	—	—	374	401
International organizations[c]	**275**	**429**	**302**	—	—	—	**150**	**302**
TOTAL	**82 812**	**77 392**	**133 354**	**5 856**	**4 012**	**2 339**	**82 290**	**133 354**

[a] Includes multinational organizations
[b] Includes COMECON institutions
[c] Includes regional development organizations
[p] preliminary
[r] revised

International bond yields

long-term issues, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov
U.S. companies:											
U.S. dollar	8.55	10.13	11.76	12.70	13.02	13.41	13.33	13.04	12.92	11.63	11.32
Swiss franc	5.70	6.61	7.27	7.30	7.40	7.66	7.53	7.64	7.92	7.87	7.87
European companies:											
U.S. dollar	9.21	10.93	12.42	14.29	13.88	14.12	14.15	13.81	13.73	12.81	12.37
German mark	6.84	7.55	8.79	9.36	8.23	8.35	8.28	8.32	8.24	8.23	8.31
Governments:											
U.S. dollar	9.12	10.66	11.83	13.59	13.50	13.77	13.78	13.41	13.30	12.62	12.00

New international bond issues

new issues in period, in millions of dollars

	1979	*1980*	*1981*	*1982*			*Jan-Dec*	
				Octr	*Novr*	*Decp*	*1982*	*1981*
By type:								
Eurobonds, total	**18 726**	**23 970**	**31 616**	**4 546**	**5 177**	**2 756**	**52 161**	**31 616**
by category of borrower								
U.S. companies	2 872	4 107	6 178	809	965	41	13 126	6 178
Foreign companies	7 183	9 032	12 882	1 887	1 461	938	13 647	12 882
State enterprises	4 524	5 839	7 496	1 269	846	1 066	14 297	7 496
Governments	2 433	3 045	2 629	398	1 356	511	7 415	2 629
International organizations	1 714	1 947	2 431	183	549	200	3 676	2 431
by currency of denomination								
U.S. dollar	12 565	16 427	26 830	3 870	3 762	2 525	45 048	26 830
German mark	3 626	3 607	1 277	72	462	144	2 587	1 277
Dutch guilder	531	1 043	529	85	36	—	645	529
Canadian dollar	425	279	634	110	33	20	1 201	634
European composite units	253	65	309	107	794	67	1 385	309
Other	1 326	2 549	2 037	302	90	—	1 295	2 037
Foreign bonds outside the United States, total	**17 749**	**14 521**	**13 817**	**1 673**	**1 506**	**1 157**	**20 535**	**13 817**
by category of borrower								
U.S. companies	217	307	592	92	—	96	1 969	592
Foreign companies	3 463	3 157	3 384	468	411	407	4 447	3 384
State enterprises	3 284	2 830	3 701	347	475	136	5 421	3 701
Governments	7 663	4 086	2 762	337	175	130	3 575	2 762
International organizations	3 122	4 141	3 378	429	445	388	5 123	3 378
by currency of denomination								
German mark	5 379	4 839	1 310	207	255	206	2 951	1 310
Swiss franc	9 777	7 617	8 285	1 113	866	647	11 597	8 285
Dutch guilder	75	259	481	99	72	—	919	481
Japanese yen	1 833	1 088	2 457	183	239	183	3 414	2 457
Other	635	718	1 284	71	74	121	1 654	1 284
Foreign bonds in the United States, total	**4 515**	**3 429**	**7 552**	**650**	**149**	—	**6 096**	**7 552**
by category of borrower								
Canadian entities	2 193	2 136	4 630	100	49	—	3 330	4 630
International organizations	1 100	550	1 375	250	—	—	1 700	1 375
Other	1 222	743	1 547	300	100	—	1 066	1 547
By country of borrower:								
Industrial countries	**31 886**	**32 732**	**40 978**	**5 674**	**5 501**	**3 205**	**63 612**	**40 978**
Australia	593	539	991	130	191	102	2 348	991
Austria	1 218	1 859	1 557	105	39	—	1 668	1 557
Canada	4 197	3 797	10 648	821	487	268	12 228	10 648
Denmark	752	1 125	695	67	307	—	1 269	695
Finland	699	392	672	151	76	—	815	672
France	2 106	2 820	3 156	698	514	624	7 870	3 156
Italy	338	904	1 108	18	729	48	1 794	1 108
Japan	5 775	5 309	6 928	693	1 017	648	8 395	6 928
Netherlands	832	1 585	630	368	36	29	894	630
New Zealand	553	293	1 107	106	92	300	1 375	1 107
Norway	1 955	892	530	250	—	—	832	530
Sweden	1 530	3 244	2 050	300	112	412	2 686	2 050
United Kingdom	1 181	1 733	1 408	273	396	100	1 281	1 408
United States	6 767	5 587	6 770	901	965	137	15 095	6 770
Developing countries	**3 093**	**2 485**	**4 769**	**333**	**406**	**120**	**4 885**	**4 769**
Non-OPEC countries	2 675	1 942	4 338	208	406	70	3 845	4 338
Brazil	930	349	60	18	—	—	91	60
Korea	44	68	323	20	10	20	172	323
Mexico	363	544	3 012	—	—	—	1 919	3 012
OPEC countries	418	543	431	125	—	50	1 040	431
Venezuela	55	398	291	—	—	—	385	291
Communist countries	**75**	**65**	**75**	—	—	—	**65**	**75**
International organizations	**5 936**	**6 638**	**7 163**	**862**	**925**	**588**	**10 230**	**7 163**
TOTAL	**40 990**	**41 920**	**52 985**	**6 869**	**6 832**	**3 913**	**78 792**	**52 985**

Central bank discount rates

	1978	1979	1980	1981	1982			Current	
	end Dec	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	Dec 23 1982	effective since
United States	9.50	12.00	13.00	12.00	12.00	12.00	10.00	8.50	Dec 14, 82
Canada	10.75	14.00	17.36	14.66	15.11	16.58	12.98	10.21	Dec 16, 82
Japan	3.50	6.25	7.25	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	12.50	17.00	14.00	14.37	13.00	12.50	10.00	10.00	Nov 26, 82
Belgium	6.00	10.50	12.00	15.00	13.00	14.00	12.50	11.50	Nov 12, 82
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	3.00	0.00	7.50	7.50	7.50	7.50	7.00	5.00	Dec 3, 82
Italy	10.50	15.00	16.50	19.00	19.00	19.00	18.00	18.00	Aug 24, 82
Netherlands	6.50	9.50	8.00	9.00	8.00	8.00	7.00	5.00	Dec 3, 82
Austria	4.50	3.75	6.75	6.75	6.75	6.75	6.25	4.75	Dec 3, 82
Denmark	8.00	11.00	11.00	11.00	11.00	11.00	11.00	10.00	Nov 30, 82
Finland	7.25	0.50	9.25	9.25	9.25	8.50	8.50	8.50	Jun 1, 82
Ireland	11.85	16.40	12.75	17.15	18.30	18.30	14.55	12.85	Oct 22, 82
Norway	7.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	Nov 30, 79
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	6.50	9.00	12.00	11.00	10.00	10.00	10.00	10.00	Mar 10, 82
Switzerland	1.00	2.00	3.00	6.00	5.50	5.50	5.00	4.50	Dec 3, 82
Argentina	108.19	89.90	87.01	98.50	99.87	87.23	128.54	128.54	Sep 30, 82
Korea	14.50	14.50	15.50	10.50	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	10.50	13.00	14.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	4.50	6.75	10.50	9.50	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	8.50	7.00	7.00	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	7.50	11.00	13.00	14.00	14.00	14.00	14.00	13.00	Sep 30, 82

Day-to-day money rates

monthly averages

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	10.03	13.78	18.90	12.37	14.45	14.15	12.59	10.12	10.31	9.71	9.20
Canada	9.44	13.83	15.61	14.53	15.22	15.55	16.16	15.03	13.58	12.10	10.91
Japan	4.57	8.02	9.49	6.70	7.17	7.19	7.19	7.18	6.99	6.92	6.68
Australia	8.40	7.84	9.51	12.84	15.51	15.01	13.39	15.09	13.23	13.27	12.52
United Kingdom	10.00	14.87	13.00	9.13	9.13	8.31	10.10	9.75	9.80	8.56	8.33
Belgium	6.73	10.65	9.68	12.78	12.95	11.68	13.13	11.76	10.52	11.13	10.51
France	6.67	12.17	10.87	15.46	16.41	15.98	15.05	14.58	14.11	13.91	13.18
Germany	3.61	9.15	9.13	10.65	9.08	9.00	9.03	8.74	7.96	7.48	7.02
Italy	11.00	16.00	17.50	20.63	20.50	20.41	20.13	19.69	18.63	18.63	18.86
Netherlands	10.00	15.67	8.37	10.67	8.87	7.63	8.94	8.63	7.33	7.23	6.13
Austria	5.37	8.50	11.50	7.50	9.75	9.62	10.50	9.25	7.75	6.25	6.38
Finland	9.29	13.53	12.50	11.30	11.50	11.50	11.50	11.50	11.45	11.70	11.50
Ireland	12.12	16.88	13.31	16.88	19.25	18.94	18.25	15.62	16.00	13.13	15.50
Spain	16.75	9.61	16.74	18.73	17.84	22.34	17.29	13.96	13.78	20.54	23.18
Sweden	6.26	11.99	11.41	13.82	13.99	14.65	14.98	14.47	15.22	13.30	12.51
Switzerland	0.00	1.25	5.75	3.38	1.25	1.50	1.50	1.50	2.25	1.87	1.38
Argentina	n.a.	78.22	70.84	84.93	91.51	74.82	80.72	101.34	127.09	135.66	132.70
Brazil	42.08	37.51	62.71	103.74	99.86	99.86	104.43	130.32	108.40	125.22	136.85
Hong Kong	9.67	14.19	14.05	10.75	14.75	13.50	11.75	8.25	9.37	11.05	11.13
Korea	15.00	15.00	14.82	14.40	12.00	13.25	13.39	13.23	13.39	13.58	13.75
Philippines	13.22	16.25	15.70	14.70	14.63	11.37	8.20	10.56	12.68	13.01	n.a.
Singapore	4.98	10.17	10.23	3.96	9.63	6.39	6.44	7.56	5.67	6.16	n.a.
South Africa	7.11	3.81	5.60	12.34	14.36	14.62	14.94	14.72	14.85	14.45	13.50
Eurodollars	10.80	14.41	19.22	12.29	14.63	14.13	12.57	10.10	10.52	9.88	9.40

Treasury bill rates

bond-equivalent yields, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	9.42	12.39	14.87	11.90	12.00	13.15	10.63	8.01	7.64	8.13	8.10
Canada	10.46	13.66	17.01	14.41	15.18	16.33	15.25	13.70	12.73	11.21	10.72
Japan	3.39	5.68	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	8.35	9.31	12.17	13.27	14.88	15.47	14.61	14.43	11.62	13.72	12.98
United Kingdom	12.01	16.45	13.45	15.31	13.17	12.70	11.58	10.26	9.99	9.40	10.12
Belgium	9.25	14.40	12.75	16.00	15.00	15.75	14.50	13.75	12.75	12.75	12.25
Ireland	11.83	16.37	12.84	17.35	18.25	18.05	16.76	14.64	14.48	12.74	12.87
Italy	12.81	15.62	16.87	21.36	20.05	19.25	19.27	19.01	17.67	18.05	n.a.
Netherlands	9.50	12.75	8.00	9.75	8.75	8.19	8.75	7.38	7.00	6.50	5.88
Spain	13.00	15.00	17.20	15.83	16.09	16.57	16.49	15.53	15.15	16.79	17.38
Sweden	5.84	9.74	12.87	9.20	9.22	9.22	10.25	10.25	10.26	10.26	9.20
Argentina	82.55	71.04	66.19	77.10	56.00	53.46	108.31	133.36	133.36	133.36	133.36
Brazil	49.96	31.68	110.60	110.21	110.52	112.91	122.71	131.87	135.53	132.91	132.91
Korea	17.01	19.53	16.35	16.00	14.40	14.40	14.40	14.40	14.40	8.00	8.00
Mexico	12.75	17.89	27.73	33.22	43.52	51.30	53.01	55.88	49.42	n.a.	n.a.
New Zealand	10.50	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
Philippines	12.08	12.63	12.74	13.40	14.64	14.75	14.87	14.18	14.30	14.32	n.a.
Singapore	4.01	6.18	6.77	3.03	3.93	3.93	3.62	3.30	3.09	2.96	n.a.
South Africa	7.61	4.30	6.31	14.55	16.57	17.06	17.12	16.91	16.12	16.06	15.12

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	10.57	13.70	17.62	12.78	13.58	15.19	11.98	9.61	10.26	8.68	8.68
Canada	10.62	14.15	17.50	15.25	15.90	17.20	15.70	14.20	12.95	11.65	11.00
Japan	4.64	8.01	9.80	6.30	7.08	7.19	7.02	7.22	7.05	6.89	7.06
Australia	9.10	10.30	13.00	16.00	18.25	19.10	16.95	17.00	14.10	15.50	13.80
United Kingdom	12.50	17.00	14.75	15.69	13.44	13.00	11.94	10.75	10.56	9.56	10.38
Belgium	9.25	14.45	13.10	16.00	14.75	15.75	14.75	13.90	13.00	12.85	12.50
France	6.44	12.62	11.56	15.25	16.13	14.87	14.87	14.38	13.81	13.06	12.94
Germany	3.70	8.70	10.20	10.50	9.15	9.40	9.30	8.30	8.00	7.33	7.25
Ireland	13.00	18.12	13.63	18.50	20.00	19.88	17.50	15.62	15.38	13.69	13.63
Italy	11.37	17.12	17.37	21.00	20.50	20.38	20.00	18.75	18.50	18.50	18.80
Netherlands	10.50	13.00	9.37	11.00	8.75	8.87	9.12	8.13	8.00	6.38	6.75
Spain	22.80	13.20	17.40	15.52	15.62	18.02	17.32	15.13	13.91	17.30	19.27
Switzerland	0.50	6.12	7.50	10.12	4.38	5.12	4.37	4.00	4.62	3.75	4.25
Hong Kong	11.82	14.37	17.69	14.18	14.75	14.25	12.75	10.75	10.00	11.00	11.25
Korea	17.01	19.53	16.35	15.69	12.50	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	12.00	16.00	14.25	16.05	17.30	17.25	17.25	17.50	17.75	18.00	17.25
Philippines	11.48	10.41	15.01	17.61	17.49	17.03	17.06	16.69	16.50	15.89	n.a.
Singapore	7.38	10.12	14.12	7.81	9.94	9.12	8.19	8.31	7.69	7.69	n.a.
South Africa	7.85	4.72	7.12	15.47	17.32	17.92	18.19	17.59	17.10	17.21	15.75

Commercial bank deposit rates

at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	10.90	13.55	16.25	12.62	13.00	14.25	11.00	10.10	9.75	9.15	8.70
Canada	10.45	14.05	17.00	15.20	15.80	17.10	15.60	14.05	12.85	11.60	10.95
Japan	2.50	8.37	9.00	6.50	7.03	7.24	7.20	7.35	7.30	7.27	7.15
Australia	8.50	10.25	12.71	15.65	18.16	18.25	16.64	17.51	14.69	14.96	14.56
United Kingdom	12.25	16.81	14.87	15.69	13.37	13.00	11.81	10.63	10.81	9.50	10.44
Belgium	9.87	14.50	12.63	15.50	14.37	15.12	14.38	13.13	12.75	12.50	12.25
France	6.50	12.50	11.25	9.16	9.60	9.40	8.97	8.75	8.53	8.43	8.19
Germany	3.50	7.75	8.00	9.50	8.25	8.50	8.25	7.00	7.00	6.60	6.50
Italy	12.50	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	11.62	13.50	9.50	11.00	8.75	8.75	8.87	8.13	7.88	6.38	6.75
Austria	6.75	8.50	11.25	9.63	8.50	8.50	8.50	8.62	8.25	7.75	7.13
Denmark	7.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Finland	3.25	4.25	5.00	5.00	5.00	4.25	4.25	4.25	4.25	4.25	4.25
Ireland	12.75	17.87	13.63	18.38	19.88	19.50	17.37	15.50	15.25	13.63	13.50
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	4.50	4.50	11.78	12.19	12.06	12.02	12.44	12.33	13.04	n.a.
Sweden	6.25	8.75	9.75	10.25	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Switzerland	0.12	4.75	7.50	8.75	3.25	5.25	3.50	3.50	3.25	3.00	3.00
Argentina	86.63	72.64	72.00	86.76	70.00	85.89	60.83	60.83	85.16	85.16	103.42
Brazil	58.27	55.55	96.49	110.05	108.50	109.15	113.90	99.00	103.18	107.53	122.51
Hong Kong	4.50	9.25	13.00	12.50	11.50	11.50	11.00	9.00	9.00	9.00	8.50
Korea	15.00	15.00	14.82	14.40	12.00	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	12.00	16.75	26.15	31.81	40.86	48.05	50.60	53.29	49.75	n.a.	n.a.
New Zealand	12.00	15.90	13.50	15.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50
Philippines	8.50	10.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	7.31	10.31	13.19	7.50	9.31	9.00	7.75	8.00	7.31	7.00	n.a.
South Africa	7.30	4.82	7.87	14.75	17.05	17.75	17.87	17.17	16.50	16.53	15.18
Venezuela	7.25	15.00	16.00	14.75	15.50	15.50	16.00	15.50	14.50	15.00	15.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	11.75	15.25	21.50	15.75	16.50	16.50	15.50	13.50	13.00	12.00	11.50
Canada	11.50	15.00	18.25	16.50	17.00	18.25	17.25	15.50	15.00	13.75	13.00
Japan	4.50	6.51	8.16	6.95	6.36	6.34	6.33	6.32	6.31	6.35	6.35
Australia	11.00	10.75	13.50	15.75	17.50	17.50	17.50	17.50	17.00	16.50	16.50
United Kingdom	13.50	18.00	15.00	14.50	13.00	12.50	12.00	10.50	10.00	9.50	10.00
Belgium	10.00	15.25	15.75	18.00	17.50	17.50	17.50	16.75	16.00	16.00	15.50
France	9.80	12.50	12.25	14.00	14.00	14.00	13.75	13.25	13.25	12.75	12.75
Germany	5.50	9.75	11.50	13.00	11.50	11.50	11.50	11.50	10.50	10.50	10.00
Italy	15.00	19.50	20.50	22.50	21.75	21.75	21.75	20.75	20.75	20.75	20.75
Netherlands	12.00	15.00	10.75	12.00	9.50	9.75	10.00	8.75	8.75	8.00	7.25
Austria	8.75	8.50	12.50	13.50	13.00	12.25	12.25	12.25	11.50	11.50	11.75
Denmark	10.00	13.75	13.75	15.00	15.00	15.00	15.50	15.50	15.50	15.50	15.50
Finland	7.87	9.06	9.83	9.84	9.77	9.06	9.04	8.99	8.97	8.97	n.a.
Ireland	13.75	16.00	14.50	17.25	19.25	19.25	19.25	16.50	16.50	16.50	16.50
Norway	11.00	11.00	12.50	13.75	14.00	14.00	14.00	14.00	14.00	14.00	14.50
Spain	9.00	9.00	18.50	17.04	16.64	18.96	19.50	17.82	16.04	18.35	20.39
Sweden	6.50	10.75	11.75	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Switzerland	5.00	5.00	5.75	8.00	7.50	7.00	7.00	6.50	6.50	6.50	6.50
Argentina	86.75	80.00	77.00	92.60	86.26	89.00	73.00	73.00	97.33	97.33	109.50
Brazil	64.34	59.60	96.45	138.09	138.89	141.04	143.19	151.80	151.80	151.80	162.30
Hong Kong	8.75	14.50	17.00	16.00	15.00	15.00	14.00	12.00	12.00	12.00	11.00
Korea	18.50	18.50	19.50	16.50	13.50	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	17.50	19.00	24.25	31.81	36.26	39.59	43.23	46.42	47.88	45.99	45.51
New Zealand	9.75	11.75	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	14.00	16.00	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	7.65	9.50	13.60	11.83	10.98	10.98	10.70	10.25	10.03	9.75	n.a.
South Africa	11.50	9.50	9.50	17.00	20.00	20.00	20.00	20.00	20.00	20.00	18.00
Venezuela	10.25	13.00	15.00	15.50	16.50	16.50	17.00	16.50	16.00	16.50	16.50

Domestic government bond yields

long-term issues, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	9.00	10.20	11.46	14.33	13.57	14.14	13.68	12.46	11.50	10.79	10.74
Canada	9.68	11.32	12.69	15.27	14.72	16.03	15.62	13.96	13.48	12.63	12.18
Japan	6.40	8.63	9.04	8.32	8.31	8.64	8.49	8.41	8.46	8.50	8.32
Australia	8.80	10.08	13.00	15.00	16.50	16.50	16.50	16.25	14.50	14.25	14.40
United Kingdom	12.75	13.83	13.05	15.02	13.07	13.08	13.05	11.20	10.74	10.04	10.95
Belgium	8.80	11.13	13.04	13.99	13.56	13.59	13.13	13.13	13.20	13.23	12.87
France	9.94	12.59	14.31	16.44	16.13	15.98	15.96	15.78	15.76	15.81	15.79
Germany	6.65	7.91	9.19	9.71	8.83	9.33	9.14	8.79	8.00	8.27	8.19
Italy	13.04	14.00	16.23	21.39	20.77	20.78	20.77	20.11	19.18	19.38	n.a.
Netherlands	8.48	9.29	10.48	11.28	10.29	10.53	10.50	10.24	10.00	9.26	8.92
Austria	7.91	8.20	9.62	10.37	10.03	10.01	10.01	10.04	9.59	9.24	n.a.
Denmark	17.27	18.28	19.98	20.91	22.58	22.78	22.29	22.72	22.83	21.16	n.a.
Finland	9.19	9.58	10.42	10.98	11.12	10.84	10.74	10.59	10.64	10.62	10.68
Ireland	13.44	16.64	15.63	18.28	18.28	18.58	17.33	15.93	15.17	13.95	15.53
Norway	8.19	10.04	10.44	12.37	13.26	12.95	12.95	13.16	13.27	13.29	13.32
Spain	n.a.	n.a.	n.a.	12.50	12.50	12.50	12.50	12.50	12.50	12.75	12.75
Sweden	10.09	11.22	12.61	12.80	12.79	13.00	13.18	13.23	13.27	13.73	13.09
Switzerland	3.03	4.20	4.63	5.40	4.98	5.19	4.90	4.64	4.43	4.31	4.27
Argentina	112.18	47.94	36.84	107.98	62.77	97.25	151.14	309.96	188.74	242.86	135.02
New Zealand	10.02	12.98	12.99	12.55	12.97	12.99	12.97	12.73	12.94	n.a.	n.a.
Philippines	13.40	13.20	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	9.72	9.32	11.81	13.62	14.15	14.49	14.70	14.09	12.34	12.32	11.84
Venezuela	7.24	7.29	7.39	12.50	12.75	13.00	13.25	13.25	13.25	13.50	14.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	9.25	10.75	13.00	15.50	15.00	15.75	15.25	13.50	12.88	12.00	11.75
Canada	10.34	12.07	13.62	16.48	16.82	17.80	17.27	15.99	14.78	13.61	13.58
Japan	6.94	8.34	8.60	7.70	7.42	7.90	7.90	7.99	8.05	8.10	8.10
Australia	10.25	11.65	14.25	16.50	17.50	17.50	17.75	17.50	16.75	16.75	16.75
United Kingdom	13.53	14.96	14.21	16.55	14.60	14.62	13.86	12.53	12.51	11.68	12.34
France	10.27	12.92	15.23	17.33	16.80	16.67	16.67	16.61	16.83	16.42	16.33
Germany	6.80	8.20	9.50	10.50	9.10	9.30	9.50	9.40	9.30	8.90	8.50
Netherlands	8.62	9.95	10.71	11.03	10.21	10.51	10.65	10.32	10.19	9.34	8.49
Norway	8.37	10.53	11.24	13.36	12.40	12.90	12.90	14.14	14.94	14.46	11.69
Spain	13.49	14.20	14.82	14.76	16.72	17.98	17.42	17.86	18.36	17.90	n.a.
Sweden	10.03	10.21	11.95	12.94	12.91	12.87	12.90	12.92	12.97	13.16	13.33
Switzerland	4.85	5.53	5.63	6.60	5.82	6.05	6.05	6.12	6.08	5.96	5.89
Korea	22.60	27.80	28.20	27.00	17.10	16.40	13.90	14.00	15.00	15.30	15.90
Venezuela	12.43	14.55	16.15	17.00	17.75	17.75	18.00	17.50	17.50	17.75	18.00

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World Financial Markets

Morgan Guaranty Trust Company of New York

February 1983

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Global debt: assessment and prescriptions*

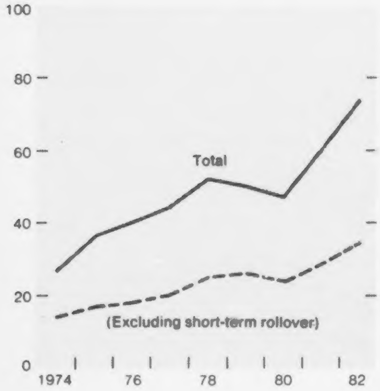
The issue of global debt has come to the fore at a time of economic and financial strain, which is unparalleled in the post-World War II era and looks, in some respects, frighteningly reminiscent of the Great Depression. You will recall that among the factors that severely aggravated the economic contraction of the 1930s were sharp declines in the volume of world trade and the prices of internationally traded commodities. These depressed the economies and strained the debt servicing capacities of the less developed countries, especially those of Latin America. Contraction of international financial markets, involving both short- and long-term credit, ultimately led to widespread defaults and even debt repudiation, exacerbating the slump in world economic activity.

Today, we are again confronted with prolonged worldwide recession, characterized by growing unemployment, spreading protectionism, several competitive devaluations, sharp declines in commodity prices, and a contraction in the volume of world trade. Moreover, a growing number of countries are unable to meet their external debt servicing obligations on schedule. The manner in which the international community responds — with inward-looking policies or with cooperation and coordination — will ultimately determine whether the present situation deteriorates or improves. This, in turn, will have direct bearing on the chances for sustained economic recovery in the United States.

The title of this hearing, "Global Debt," is well chosen. Until recently, debt servicing difficulties and reschedulings were confined to a few isolated cases, involving countries that had borrowed relatively small amounts from commercial banks. For example, in the 1970s the two largest reschedulings that involved debts owed to banks were by Turkey and Peru, each of which had about $3½-$4 billion of outstanding bank debt at the time; in neither instance were there damaging spillover effects on other countries. By contrast, since 1981 the problems of Poland have affected bank lending to all of Eastern Europe, and this past year the debt difficulties of Mexico and Argentina have had an impact on all of Latin America.

More than 25 countries around the

21 Major LDC borrowers
Debt service ratios
debt service equals interest payments, amortization, plus rollover of short-term debt; as percent of exports of goods and services



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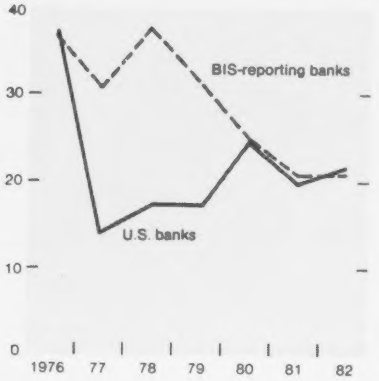
*Statement by Rimmer de Vries, Senior Vice President, Morgan Guaranty Trust Company, before the Subcommittee on International Economic Policy of the Senate Foreign Relations Committee, Washington, D.C., January 19, 1983.

Growth of bank lending to 21 major LDC borrowers

annual percent change in banks' claims, in dollar terms



world are now in arrears, in the process of rescheduling, or have already rescheduled portions of their bank debt. Their combined outstanding bank debt is estimated to be more than $200 billion — nearly half of the total debt LDCs and the Eastern bloc owe to commercial banks. Latin American countries account for about 80% of the bank debt of these countries. An additional 15 countries with bank debts totaling nearly $80 billion face serious balance of payments difficulties that could lead to arrearages or reschedulings later this year if the current negative international lending environment persists.

In my remarks today I intend to focus on the origins and magnitude of the debt problem, present a blueprint for reconstruction, and make several specific recommendations for strengthening the international financial system.

Origins and magnitude of the LDC debt problem

The present surge in international lending to LDCs is less than a decade old. Until the early 1970s, the LDCs had only limited access to international financial markets and instead had to rely on official sources to supply the bulk of their external financing. As of 1971, two-thirds of the LDCs' external debt was owed to official sources; the remaining third consisted of debt owed to suppliers, as well as to banks. In fact, comprehensive data covering loans by banks in the BIS-reporting area or by U.S. banks, including their foreign branches, were not even compiled until the mid-1970s. Bank lending to LDCs in the 1960s was largely confined to short-term trade financing, a few term loans to governments extended mainly in conjunction with IMF stabilization programs and often collateralized with gold, and a modest amount of project-related loans, frequently guaranteed by third parties.

During the 1970s, several developments turned banks into the predominant suppliers of funds to medium- and high-income LDCs. One factor was the emerging growth and investment opportunities in a number of developing countries whose economies began to open up and take off in the second half of the 1960s. During the past two decades, the LDCs' aggregate real output rose by 5½% annually, well above the 3%-4% per annum growth in the industrial countries. Many newly industrializing countries, such as Mexico, Brazil, and Korea, achieved growth rates well above the LDC average by inviting foreign investment and adopting outward-looking development strategies. With official assistance failing to keep pace with their growing financing requirements, they and other "aid graduates" turned to banks for loans to sustain their high growth rates and development programs. The emphasis in international lending during this period increasingly shifted from trade financing to project and balance of payments financing.

It is interesting to recall that the United States passed through a similar stage of development in the late 1800s. For many years between 1870 and 1890, this country ran sizable current account deficits, averaging close to 25% of exports of goods and services. During these two decades, it accumulated a large external debt, which averaged over 300% of exports in the last five years of this period. Moreover, interest payments on these debts ranged between 10% and 15% of exports. These ratios were well above those recorded by most LDCs during the past two decades.

The big surge in bank lending to LDCs began in 1974-75 in the aftermath of the first oil shock, when higher oil prices and ensuing world

Table 1

External debt owed to banks by 21 major LDC borrowers

end-June, 1982, in billions of dollars

	BIS-reporting banks	*U.S. banks*	
		All	*9 large*
Latin America			
Argentina	25.3	8.8	5.6
Brazil	55.3	20.5	12.3
Chile	11.8	6.1	3.3
Colombia	5.5	3.0	2.1
Ecuador	4.7	2.2	1.3
Mexico	64.4	25.2	13.6
Peru	5.2	2.3	1.3
Venezuela	27.2	10.7	7.1
Subtotal	199.4	78.9	46.7
Asia			
Indonesia	8.2	2.4	1.9
Korea	20.0	9.2	5.1
Malaysia	5.3	1.3	1.0
Philippines	11.4	5.3	3.7
Taiwan	6.4	4.4	2.7
Thailand	4.8	1.7	1.0
Subtotal	36.8	24.3	15.4
Middle East and Africa			
Algeria	7.7	1.2	.8
Egypt	5.4	1.5	1.0
Israel	6.1	2.6	1.4
Ivory Coast	3.2	.5	.4
Morocco	3.7	.9	.7
Nigeria	6.7	1.2	.9
Turkey	4.0	1.4	.9
Subtotal	36.8	9.2	6.2
Total of 21 LDCs	292.3	112.5	68.3
Total for all LDCs (excluding offshore banking centers)	347.5	125.5	77.7
21 LDCs as % of all LDCs	84	90	88

recession quadrupled the current account deficit of non-oil LDCs, from about $11 billion in 1973 to over $45 billion in 1975. For banks in the United States, such lending was facilitated by the removal of controls on capital outflows at the beginning of 1974.

This lending was encouraged by governments of the industrial countries. They were concerned that the OPEC current account surplus, which jumped from $7 billion in 1973 to $68 billion in 1974, would continue indefinitely at very high levels because of perceived limits on OPEC's "absorptive capacity." Banks, in which OPEC members placed a large portion of their surplus, were encouraged to recycle these funds to mitigate the higher oil prices' recessionary impact on the world economy.

In addition, IMF resources were boosted in 1974 and 1975 through the first and second oil facilities, which together totaled $9 billion, and later through the Supplementary Financing Facility, which added another $10 billion. The intent was to concentrate official assistance on those developing countries most seriously affected by higher oil prices and shortages of food and fertilizer, although such countries as Britain and Italy were also significant borrowers from the IMF oil facilities.

From the mid-1970s to the onset of the second oil shock in 1979, outstanding bank loans to 21 principal LDC borrowers* — each of which had bank debt of $3 billion or more by 1982 and which together accounted for nearly 85% of the bank debt of all LDCs (see Table 1) — grew at an average annual rate in excess of 30%. Credit to this same group extended by U.S. banks and their foreign branches increased at an average annual rate of 21% (see chart).

The rapid increase in loans to LDCs proved highly successful in terms of moderating the adverse consequences of higher oil prices for world economic growth. Economic expansion among the major LDC borrowers was sustained at a 5½% annual rate in 1974-75, because financing was available for their growing imports. This, in turn, helped growth in industrial countries, which were able to continue expanding their exports to developing countries. For example, U.S. exports to those countries increased over the period, at an annual rate of about 30% — nearly twice as fast as the growth of U.S. exports to industrial countries. By the second half of 1975, a strong recovery was under way in the United States, and recovery in other industrial countries followed. The 1974-75 recession in industrial countries was, thus, relatively short-lived. OECD real GNP growth averaged over 3½% annually in the remainder of the 1970s.

Current account imbalances narrowed as the world economic environment turned more favorable. The combination of rapid growth in OPEC imports and a 20% fall in real oil prices led to the disappearance of the OPEC surplus by 1978. Importantly, part of the reduction of the OPEC surplus accrued to the benefit of non-oil developing countries, whose current account deficits narrowed.

Furthermore, several critical ratios affecting countries' creditworthiness did not deteriorate. The major LDC borrowers' total external debt to banks and other lenders increased at about a 25% annual rate between the end of 1975 and the end of 1979 — from nearly $130 billion to approximately $310 billion. During this same period, their ex-

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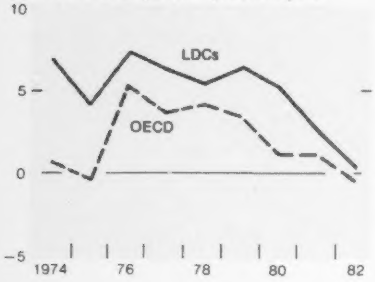
*Algeria, Argentina, Brazil, Chile, Colombia, Ecuador, Egypt, Indonesia, Israel, Ivory Coast, Korea, Malaysia, Mexico, Morocco, Nigeria, Peru, the Philippines, Taiwan, Thailand, Turkey, and Venezuela.

Growth and trade of 21 Major LDC borrowers and industrial countries

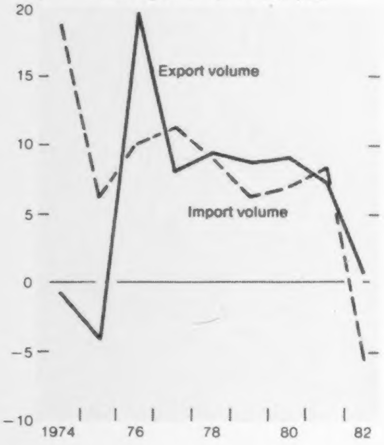
Real GNP growth

percent change from previous year



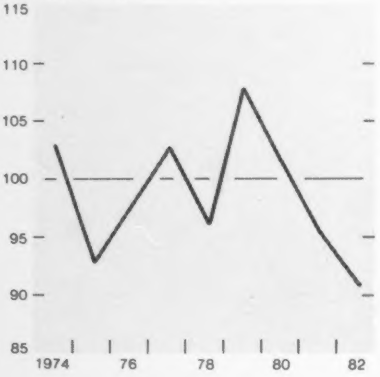
LDC merchandise trade volume

percent change from previous year



LDC terms of trade

ratio of export prices to import prices, 1976-79=100



ports of goods and services grew at a 22% annual rate, reflecting both favorable commodity price trends and strong growth of export volume. As a result, their total debt-to-exports ratio rose only slightly from 120% in 1975 to 133% at the end of the decade (see chart). Moreover all of the rise in this ratio reflected borrowings to build up foreign exchange reserves, which climbed from $33 billion at year-end 1975 to over $75 billion at year-end 1979. The ratio of total debt service (including short-term debt) to exports for the 21 major LDC borrowers increased from 37% in 1975 to 50% in 1979.

In sum, recycling after the first oil shock proceeded much more smoothly than even the optimists had expected. By financing the LDC current account deficits, banks, together with official institutions, played an enormously constructive role in preventing the 1974-75 recession from becoming more widespread and prolonged. Recovery in the industrial countries and declining real oil prices contributed to a subsequent narrowing of the LDC current account deficit and rapid export growth, such that there was little overall deterioration in LDC debt service ratios or creditworthiness. Of course, part of the reason developing countries did not experience much deterioration in their debt ratios is that world inflation, which continued to ratchet upward, eased their debt burdens. Moreover, generally permissive monetary policy in the United States and several other major industrial countries kept interest rates relatively low, often negative in real terms.

The same appraisal cannot be made of the experience after the second oil shock. A key difference is that the global economic environment has turned out to be far more difficult for borrowing countries in the 1980s than in the 1970s. Beginning in the United Kingdom in mid-1979 and subsequently in the United States in October 1979, governments and other economic policymakers in the major industrial countries increasingly became convinced that the upward ratcheting of inflation during successive business cycles had to be brought to an end. But given the difficulties of curbing government spending, the burden of fighting inflation was borne almost entirely by restrictive monetary policies, culminating in record-high nominal and real interest rates.

The commitment to fighting inflation by avoiding the creation of excess liquidity extended beyond national economic policies to those of international financial institutions. In contrast to initiatives after the first oil shock, no special IMF facilities were established or expanded after the second, and no new SDRs were created. Indeed, two years of delay preceded the 1980 ratification of a 50% increase in Fund quotas.

While some warnings were issued* that continued growth of banks' international lending was unsustainable, and that stepped-up official assistance was needed to help shoulder the burden of recycling, such views were clearly in the minority. Most monetary experts, from both public and private sectors, expressed confidence in the ability of the private banking system to continue playing the dominant role in recycling. Their faith reflected, in part, the relative ease with which the first shock had been handled. The rarity of defaults on sovereign loans and the fact that the banks' reported loan-loss experience was much better on interna-

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*By spokesmen for the BIS and the Federal Reserve, for example, as well as by me in two papers: "The international monetary outlook for the 1980s: no time for complacency," delivered at a Board of Governors Meeting of the Atlantic Institute for International Affairs at Paris, France, December 8, 1979; and "International economic issues and priorities," submitted to the Congressional Economic Conference, Washington, D.C., December 10, 1980.

Table 2

Estimated gross external debt and debt service of 21 major LDC borrowers

	Gross external debt at end-1982 $ billions	Debt service in 1983, % of exports[1] Total	Debt service in 1983, % of exports[1] Excluding rollover of short-term debt
Latin America			
Argentina	38.0	154	88
Brazil	85.5	117	67
Chile	17.2	104	54
Colombia	10.3	95	38
Ecuador	6.6	102	58
Mexico	80.1	126	59
Peru	11.5	79	47
Venezuela	29.5	101	25
Subtotal	278.1	117	56
Asia			
Indonesia	25.4	28	14
Korea	36.0	49	17
Malaysia	10.4	15	7
Philippines	16.6	79	33
Taiwan	9.3	19	6
Thailand	11.0	50	19
Subtotal	108.8	36	14
Middle East and Africa			
Algeria	16.3	35	30
Egypt	19.2	46	16
Israel	26.7	126	26
Ivory Coast	9.2	76	34
Morocco	10.3	65	36
Nigeria	9.3	28	14
Turkey	22.8	65	20
Subtotal	113.8	58	16
Total of 21 LDCs	501.2	71	30

[1] Interest on gross debt plus all maturing debt, including amortization of medium- and long-term debt and all short-term debt as percent of exports of goods and services, including net private transfer payments.

tional credits than on domestic loans contributed to a perception that sovereign lending risks were very small.

The attitude that "companies may fail, but countries do not" overlooked important distinctions between risks involved in lending to domestic firms and those in lending to foreign entities: first, although domestic loans often incorporate provisions that place restrictions on a firm's overall indebtedness, such covenants are seldom, if ever, included in sovereign loans, because they are difficult to enforce; and second, while it is true that countries do not go out of business, they are not always able or willing to pay their debts on a timely basis.

As a result of the relaxed attitudes that developed in the late 1970s, bank lending to developing countries continued to expand rapidly in the early 1980s, at over a 20% annual rate (see chart). Further, much of this lending continued to be concentrated heavily among certain borrowers — especially Mexico, Brazil, and Argentina. The nine largest U.S. banks' claims on these three countries rose at average annual rates of 35%, 15%, and 30%, respectively, between year-end 1979 and mid-1982. Much of the increase in bank claims on the major LDCs over this period was in the form of short-term credits. Such loans rose almost 30% per annum, reflecting the belief that they are less risky than longer-term credits. In reality, the rapid buildup of short-term debt increases borrowers' vulnerability to a sudden reduction in the willingness of lenders to roll over existing debt. Moreover, short-term lending provides little protection for banks as a group because they cannot all attempt to withdraw such credits at the same time without provoking a liquidity crisis for the borrower.

Accompanying the buildup of LDC debt was a marked deterioration in their debt servicing capacity, because of prolonged world recession and insufficient adjustment. World recession has slowed the growth of the major LDC borrowers' export volume from the 8%-9% average annual rate in the second half of the 1970s to only 1% last year. Falling dollar prices of internationally traded commodities have resulted in an 11% drop of export prices in dollar terms and an 11% decline in their terms of trade (export prices relative to import prices). The combination of slower export-volume growth and declining export prices left the dollar value of their exports in 1982 unchanged from that in 1980. Thus, even though the OPEC surplus has virtually disappeared (representing a current account swing of $110 billion in only two years), the combined current account deficit of the 21 major LDC borrowers has risen from an annual average of $30 billion in 1979-80 to nearly $65 billion in 1981-82, or from 12% of their exports of goods and services in 1979 to 23% in 1982.

The combination of a continued rapid debt buildup and stagnant exports pushed the major LDC borrowers' average outstanding debt in 1982 to over 170% of exports of goods and services — more than 40 percentage points above the average ratio of debt to exports for the second half of the 1970s. Meanwhile, high real interest rates and a shortening of debt maturities caused the total debt service ratio of the 21 countries to climb from 50% in 1979 to 75% during 1982 (see chart), with only modest decline projected for 1983 (see Table 2). As shown in Table 3, increases in debt service ratios were particularly large among the major Latin American borrowers. Their 1982 average was 125%, or about three times higher than that for the principal Asian borrowers. Under these circumstances, just a few confidence shattering develop-

Table 3

Selected external financial indicators for 21 major LDC borrowers

group averages

	21 LDCs			
	Total	*Latin America*[1]	*Asia*[2]	*Middle East*[3] *and Africa*
Total external debt[4] *as % of exports*[5]				
1979	133	196	73	130
1980	123	182	70	113
1981	140	202	78	138
1982	172	259	94	155
Total debt service[6] *as % of exports*[5]				
1979	50	76	27	46
1980	47	73	27	38
1981	60	92	33	49
1982	75	125	38	56
Current account deficit as % of exports[5]				
1979	12	21	7	8
1980	12	22	8	5
1981	22	31	12	24
1982	23	33	14	23

[1] Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, and Venezuela.

[2] Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

[3] Algeria, Egypt, Israel, Ivory Coast, Morocco, Nigeria, and Turkey.

[4] Average of beginning- and end-year debt levels.

[5] Exports of goods and services.

[6] Interest on total external debt plus all maturing debt, including amortization of medium- and long-term debt and all short-term debt.

ments such as the Polish troubles, the Falklands conflict, and the Mexican foreign exchange crisis were sufficient to trigger the major slowdown in international lending that precipitated the current global debt situation.

With the benefit of hindsight, it is clear that the stage for this situation was set by two fundamental errors of judgment following the second oil shock. The first was overestimating the capacity of individual sovereign countries to handle their debt burden. Some traditional yardsticks applied in assessing creditworthiness were discarded by borrowers and lenders as long as they felt that countries had ready access to international capital markets. Lenders were drawn to an attractive and increasingly competitive market environment, as more and more banks became active participants in international loan syndications. Bank managements and governments — and the international institutions as well — were caught up in pervasive faith in almost inevitable economic growth. This was reflected in a multitude of forecasts that turned out to be overly optimistic, but had been used to justify the swelling debt outstandings.

That belief led to a second mistake: underestimating the extent of world recession, terms-of-trade deterioration, sustained high real interest rates, and the consequent impact on the ability of LDCs to service their debt. The impact can be gauged by comparing the actual development of LDC current account deficits and external debt with their hypothetical paths had no global recession ensued in 1980-82. Sustained moderate economic growth in industrial countries, unchanged LDC terms of trade, and positive, but not excessively high, real interest rates would have cut the actual current account deficits of the principal borrowing countries by half in 1981 and 1982. As shown in Table 4 and in the charts, their external indebtedness at year-end 1982 would have totaled $75 billion less than the actual $500 billion. And, with higher export earnings, the aggregate debt/export ratio for these countries would have been below the average ratio for the second half of the 1970s. Some individual borrowers that did not adjust adequately would still have witnessed a deterioration in their debt ratios, but it is unlikely that the current global debt situation would have emerged. However, under the conditions of an unexpectedly deep and prolonged world recession and exceptionally high real interest rates, even the better managed borrowing countries suffered a deterioration in their external financial positions. There was little that international banks could do to protect themselves against such an unforeseen eventuality.

Blueprint for reconstruction

Last October, our publication *World Financial Markets* put forward a "blueprint for reconstruction," which consisted of the following points:

- There must be significant economic adjustment in the developing countries to reduce their current account deficits.
- The banks must continue to be involved in both short- and medium-term lending.
- The IMF and other official lending institutions must be involved intensively in assisting and monitoring the international adjustment process.
- With inflation down, monetary and fiscal policies in industrial countries should be cautiously retuned to make moderate economic recovery a more certain prospect. I stress caution and moderation, which are necessary to avoid reviving inflationary excesses or fear of them.

Table 4

Hypothetical financing of 21 major LDC borrowers in the absence of OECD recession in 1980-82

annual rate percent changes from previous years, except as noted

	1980	*1981*	*1982*
External environment			
OECD real GNP growth			
— actual	1.3	1.3	—0.5
— no recession	3.0	3.0	3.0
LIBOR, % p.a.			
— actual	14.1	16.8	13.5
— no recession	9.5	9.5	9.5
Borrowing countries' terms of trade			
— actual	—2.0	—6.3	—4.6
— no recession	0.0	0.0	0.0
Borrowing countries' export volume			
— actual	9.3	7.5	1.1
— no recession	9.3	7.5	7.0
Borrowing countries			
Current account balance, $ billion			
— actual	—35	—64	—64
— no recession	—23	—29	—29
Current account, % of exports			
— actual	12	22	23
— no recession	9	10	9
Total debt, $ billion			
— actual	372	449	501
— no recession	342	384	426
Total debt, % of exports			
— actual	123	140	172
— no recession	124	127	124

The blueprint requires a judicious blend of adjustment and financing. It calls for a balanced approach, involving the active cooperation of the four principal parties: developing countries, international institutions, commercial banks, and industrial countries. Each will have distinct contributions to make. Excessive reliance on any one could jeopardize the rescue operation. If, for example, too much reliance is placed on austerity programs in the borrowing countries, internal political and social repercussions could undermine any progress achieved. Likewise, a lasting solution will require the industrial countries to lead a world economic recovery. Equally, even while recognizing that correction of imbalances will take several years and will require infusion of considerable new money by both commercial banks and official institutions, unduly accommodative financing would threaten restoration of financial market confidence.

To demonstrate the benefits of a balanced approach, we have developed three scenarios for the external finances of the 21 major borrowing countries under varying assumptions about the borrowers' ability to adjust and about the extent of industrial-country recovery. These assumptions and their implications are set out in Table 5 and the results presented in the charts.

Scenario A supposes that the borrowing countries make a major and sustained adjustment effort against the background of a moderate OECD recovery. The borrowing countries are assumed to hold the volume increase in their import needs this year to just 1%, rising to 7% in 1985 and beyond. Their real GNP growth is put at 1.5% this year, recovering to 5% in 1985 and a rate thereafter reasonably in line with their employment needs. Industrial countries are assumed to manage a 1.5% upturn in real GNP this year and moderate 3% gains in 1984 and 1985. Their demand for the export products of the borrowing countries would rise 3% by volume in 1983 and by 7% in both 1984 and 1985. The economic recovery permits the borrowing countries a slight gain — 1% — in their 1983 terms of trade and gains thereafter that cumulatively reverse two-thirds of their terms-of-trade losses since 1979. Interest rates hold near present levels, well below their 1982 average.

On these assumptions, the current account deficit of the 21 borrowing countries shrinks from the $64 billion deficits of 1981 and 1982 to $51 billion this year. The deficit would then drop further, reaching the 1979 level of $26 billion in 1985, before rising again gradually as import restraints are relaxed in the later years. More important, the ratio of their current account deficit to export earnings could return by 1985 to proportions not seen since before the first oil shock — and be sustained at around 6% for the remainder of the decade. Their outstanding debt would continue to grow in nominal terms, but in real terms it would decrease. Their debt/export ratio by the mid-1980s could revert to its 1977-79 average level. These developments would pave the way for the restoration of the borrowing countries' creditworthiness in private capital markets.

Scenario B retains the assumptions of the first scenario concerning the OECD recovery but posits less decisive borrowing-country adjustment. To permit slightly faster GNP growth, their import volume rebounds 3% this year, rather than being held to 1%, and in 1984-85 grows 1% faster than in Scenario A. Their export effort is somewhat less successful. The result is that their current account deficit is reduced from $64 billion to $57 billion in 1983, solely because of lower in-

Table 5

Financing scenarios for 21 major LDC borrowers

annual rate percent changes from previous year, except as noted; debt figures are for year-end

	Estimated	Scenario A Major LDC adjustment/ Moderate OECD recovery				Scenario B Partial LDC adjustment/ Moderate OECD recovery				Scenario C Major LDC adjustment/ Minimal OECD recovery			
	1982	1983	1984	1985	1986	1983	1984	1985	1986	1983	1984	1985	1986
External environment													
OECD real GNP growth	—0.5	1.5	3.0	3.0	2.5	1.5	3.0	3.0	2.5	0.5	1.5	2.0	2.0
OECD inflation (dollar terms)	0.0	9.5	10.0	7.0	7.0	9.5	10.0	7.0	7.0	7.5	8.5	8.0	7.0
LIBOR (six-month Eurodollar deposits, % per annum)	13.5	9.0	9.0	10.0	10.0	9.0	9.0	10.0	10.0	11.0	11.0	11.0	10.0
Borrowing countries' terms of trade	—4.6	1.0	3.0	4.0	0.0	1.0	3.0	4.0	0.0	—2.0	2.0	4.0	0.0
Borrowing countries' export volume growth[1]	1.1	3.0	7.0	7.0	6.0	3.0	6.0	6.0	6.0	1.5	3.0	4.0	4.0
Borrowing countries[2]													
Real GNP growth	0.3	1.5	3.0	5.0	5.0	2.0	3.5	5.5	5.0	1.5	3.0	5.0	5.0
Import volume growth[1]	—5.7	1.0	4.0	7.0	7.0	3.0	5.0	8.0	7.0	1.0	4.0	7.0	7.0
Current account balance, $ billion	—64	—51	—38	—27	—30	—57	—54	—55	—65	—73	—83	—91	—102
Current account balance, % of exports[1]	—23	—16	—10	—6	—6	—19	—14	—12	—13	—25	—25	—23	—24
Total debt, $ billion	501	553	595	627	662	558	616	675	744	567	655	751	857
Total debt, % of exports[1]	172	170	153	136	127	171	158	147	143	182	183	180	186
Debt to banks, $ billion[3]	311	333	356	381	408	333	356	381	408	333	356	381	408
IMF, official, and other debt,[4]													
$ billion	190	220	239	246	254	226	260	294	336	234	299	370	449
% change	9	16	9	3	4	19	15	13	15	23	28	24	21

[1] Goods and services.

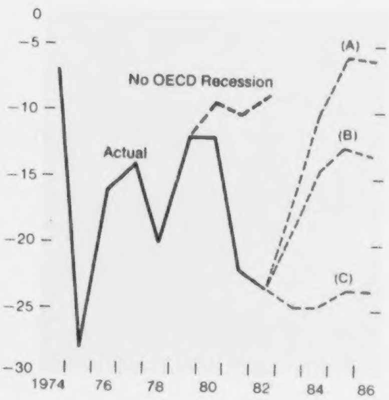
[2] Financing projections also incorporate assumptions on the relationship between LDC net interest payments and LIBOR; on private direct investment flows; and on reserve and other external asset use. No adjustments are made for valuation changes.

[3] All scenarios assume growth of bank debt at 7% per annum.

[4] Includes IMF, IBRD, Ex-Im Bank, and other official and suppliers' export credits.

Current account balance

as a percent of exports of goods and services



NOTE

(A) Major adjustment by borrowing countries, moderate OECD recovery

(B) Patial adjustment by borrowing countries, moderate OECD recovery

(C) Major adjustment by borrowing countries, minimal OECD recovery.

The quantitative assumptions underlying Scenarios A, B, & C are shown in Table 5

terest payments. The deficit shrinks little further thereafter. Indeed it climbs back to last year's level by 1986 and, in relation to export earnings, would not improve on the experience of the late 1970s. Such current account imbalances are much higher than desirable and mean that the borrowing countries' debt measured in real terms would not diminish, while their debt/export ratio would only return to its 1977-79 level toward the end of this decade. This would surely postpone and undermine the restoration of confidence in the ability of these countries to service their debts.

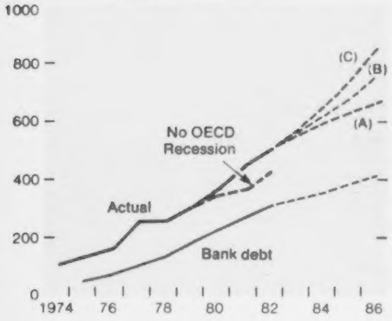
Scenario C offers the most disturbing prospect. While it assumes resolute adjustment on the part of the borrowing countries, as in Scenario A, it goes on to assume a minimal and delayed OECD recovery. The terms of trade facing borrowing countries would deteriorate again this year and in future years would recover less than in Scenario A. The export gains achievable by the borrowing countries would be severely limited. Despite rigorous adjustment efforts, the group's current account deficit would swell from last year's $64 billion to some $73 billion in 1983, and rise further in the years ahead. In relation to export earnings the current deficit would exhibit no material improvement and debt/export ratios would rise further. Financing needs would soar. Today's debt problems would only worsen.

Plainly, the thrust of international policy must be to ensure that actual

21 Major LDC borrowers

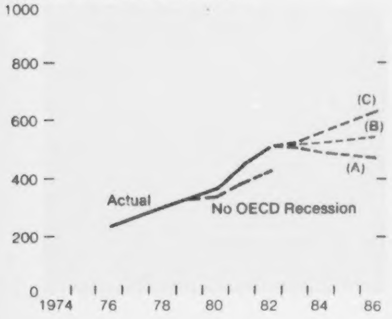
Total debt and debt to banks

in billions of dollars,
projections for 1983-87 assume 7% per annum growth in debt to banks



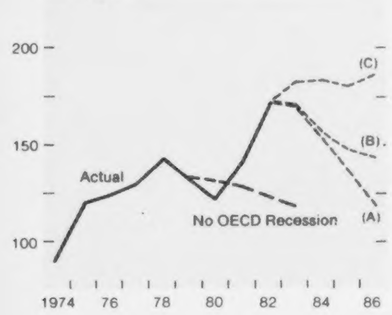
Total debt in real terms

in billions of 1982 dollars



Debt/export ratio

average of beginning and end-year total debt as a percent of exports of goods and services



NOTE:

(A) Major adjustment by borrowing countries, moderate OECD recovery

(B) Partial adjustment by borrowing countries, moderate OECD recovery

(C) Major adjustment by borrowing countries, minimal OECD recovery

The quantitative assumptions underlying Scenarios A, B & C are shown in Table 5

developments parallel those envisioned in Scenario A. To date there are indications of progress on the borrower adjustment and the financing components of the blueprint. However, industrial-country recovery is less certain, although its potential contribution to solution of the debt problem dwarfs all others in significance, as can be seen in Scenario C.

Many of the major debtor countries are making strenuous efforts to bring their borrowing requirements in line with available financing. With their export markets still weak, these countries rely primarily on restrictive domestic policies and related cutbacks to reduce their current account deficits. For example, the austerity programs of Argentina, Brazil, and Mexico all aim at lowering public-sector deficits from about 15% of GNP in 1982 to about 5% in 1984. Drastic cuts in government spending and subsidies, as well as substantial revenue-raising measures, are already under way in these three countries. On the monetary front, credit expansion targets have been set far below those of 1982, and interest rate policies are becoming more realistic. Wage policies are being amended both to lessen their inflationary bias and to contain real wage gains. These tough policies are being pursued despite their obvious political and economic costs in terms of growth of output, investment plans, current living standards, and employment.

Many countries are also seeking to boost exports and curb imports through currency depreciation. In many instances, devaluations are warranted to correct earlier erosions of competitiveness, which often resulted from misguided reliance on an overvalued currency as an anti-inflationary tool or from failure to recognize the adverse consequences of targeting dollar exchange rates without considering the overvaluation of the dollar itself. For the time being, at least, depreciation may do little to expand exports of developing countries as a group because of the stagnant or shrinking markets offered by industrial countries. Patience will be needed because any attempts to secure quick export gains through excessive devaluation will be counterproductive, as they were in the 1930s, when competitive devaluations reinforced protectionism.

The benefits of austerity should be apparent this year in reduced imports and current account deficits. For the three largest debtors, the 1983 import bill will be barely $40 billion, compared with $55 billion in 1981. Their current account deficits will aggregate perhaps $13 billion, less than half the $30 billion imbalance in 1981.

On the financing front, a fruitful cooperation is emerging between the commercial banks and the IMF. The Fund's involvement and leverage over debtor countries has been crucial to getting commercial banks to agree to provide a substantial portion of the new financing needed to underwrite the adjustment programs of the main deficit countries. The Fund's role goes hand in hand with that of the banks: without IMF persuasion of the borrowing countries to undertake needed adjustment and in the absence of Fund monitoring of their progress, the banks would be unwilling to advance sufficient additional credit. The actual amount provided by the IMF is usually only a fraction of what a borrowing country needs, with the banks providing net additional credit that is a multiple of what the IMF lends.

As for the banks, they increasingly accept the necessity for continued lending to the major borrowing countries in support of their adjustment efforts. They acknowledge their responsibility, jointly with the

Table 6

External financing of 21 major LDC borrowers

billions of dollars

						1983
	1978	*1979*	*1980*	*1981*	*1982*	*Major LDC adjustment/Moderate OECD recovery*[1]
Current account balance (deficit +)	31.3	26.4	34.6	64.2	64.0	51
Change in external assets (mainly reserves)	17.5	19.9	19.1	—0.6	—15.6	4.5
Private direct investment, net (inflows —)	—4.9	—6.5	—6.7	—8.3	—6.4	—7
Other[2]	—4.1	11.5	15.5	21.7	10.6	3.5
Change in total debt	57.8	51.3	62.5	77.0	52.6	52
Commercial banks	37.8	43.2	44.8	46.9	37.6	22
IMF	—0.1	—0.3	0.8	1.8	1.5	8.5
Official creditors, suppliers, and other	20.1	8.4	16.9	28.3	13.5	21.5
Total debt outstanding, year-end	258	309	372	449	501	553
Owed to commercial banks	139	182	227	274	311	333
% change	37.5	31.1	24.6	20.7	13.5	7
Owed to IMF, official and other creditors	119	127	145	175	190	220
% change	20.2	6.7	14.2	20.7	8.6	16

[1] Under assumptions of Scenario A, Table 5.

[2] Errors and omissions, plus net valuation adjustments. A positive figure adds to the change in total debt.

IMF, to encourage the borrowing countries' return to creditworthiness and to speed the resumption of a mutually beneficial relationship between lenders and borrowers. Evidence of the banks' constructive stance lies in the relative success with which they are assembling the new financing for 1983 that represents their contribution to the IMF-sponsored adjustment programs of Brazil and Mexico.

The financing scenarios for the 21 major LDC borrowers as a group envisage a 7% growth in net bank lending, both in 1983 and in later years — approximately the rate incorporated in the Brazil and Mexico programs for this year. Other sources of finance include the IMF, other official lenders such as the World Bank and its sister development institutions, export financing agencies, and nonbank trade creditors.

In Scenario A, total debt of the major borrowers rises from approximately $500 billion at year-end 1982 to $625 billion by the end of 1985. Of this $125 billion increase, the banks would extend $70 billion, or 56%, based on 7% per annum growth in their exposure. Official and other nonbank sources would furnish the residual $55 billion over the three-year period, their net lending proceeding at a slower average pace than in the past three years (see Table 6). The composition of this lending would shift, however. Export finance would play a less prominent role, in line with the curtailed growth of LDC imports. Official sources would be required to fill the gap. Starting with projected net IMF lending of $8.5 billion to the 21 major countries in 1983, compared with $1.5 billion in 1982, the Fund, World Bank, and other international organizations should jointly be able to extend net credit of $30 billion over the three-year period to 1985. This expectation presumes, of course, that the proposed expansion of IMF resources goes through. The residual $25 billion financing need from other nonbank sources should reasonably be attainable through bilateral official channels and private suppliers' credits.

Under Scenario B, with slippage in LDC adjustment, 7% growth in commercial bank lending leads to a $100 billion requirement from official and other nonbank sources over three years. Present thinking does not envisage growth of IMF and multilateral lending much beyond the $30 billion provision contemplated under Scenario A. The remaining $70 billion would have to come from bilateral official and private sources. But the consequent increases in exposure to several of the major borrowers look thoroughly implausible. Still worse, should OECD recovery fail, as in Scenario C, the hypothetical financing burden on nonbank sources balloons to $180 billion through 1985. Plainly, Scenarios B and C cannot realistically be financed. If their economic assumptions came to pass there would arise unmanageable pressures for yet harsher LDC adjustment and retrenchment. This would prevent world economic recovery, would pose grave risk of widespread financial defaults, and would threaten social and political stability. Success in guiding developments toward the path of Scenario A is therefore critical, especially the key ingredient of industrial-country recovery.

Yet the outlook for OECD economic recovery looms as the greatest uncertainty, both in the near term and for the balance of the 1980s. It is encouraging that nominal interest rates now are down substantially from both the peaks and the average of 1982. This reduces the net interest payments burden on the 21 major LDC borrowers by some $7 billion this year, about half the expected improvement in their current account deficit according to Scenario A. Yet real interest rates remain high to borrowers in both developing nations and the industrial countries themselves.

Official policy in the major industrial countries continues to place high priority on reducing inflation. Given the striking success achieved to that end over the past year, the time has come to recast the balance and thrust of macroeconomic policies in a cautiously expansive direction. Passively awaiting spontaneous recovery of the global economy is both risky and wasteful. Last month a panel of 26 economists, including myself, under the auspices of the Institute for International Economics here in Washington, pointed to the desirability of an easing of monetary policies in the United States, Canada, and Britain. Relaxation of fiscal policies was urged on Japan, Britain, and Germany. These recommendations have much merit, not only to provide a healthier and more certain economic environment in which to work out the problems of debtor nations but also to arrest the worrying slide in employment in the industrial countries.

Successful resolution of the global debt problem will bring benefits not just to lenders and debtors, but to all. The industrial countries should realize that their own return to prosperity would be hamstrung by failure to resolve the financial difficulties of LDCs. In 1981, developing countries absorbed 26% of the merchandise exports of industrial countries as a group, accounting for 4% of OECD GNP. Inability to sustain those exports would be a major drag on OECD recovery.

For the United States, even more than for other industrial nations, developing countries represent a major market for exports of farm products and manufactured goods, as well as of numerous services. U.S. merchandise shipments to developing countries totaled $90 billion in 1981, 38% of all U.S. exports. The fraction destined for Latin America alone was nearly 17%. Financial arrangements that enable developing countries to maintain and eventually expand their purchases from the United States will benefit our domestic output and employment. It should not be overlooked that one in six American workers employed in manufacturing and services is engaged in the export sector. Exports of $10 billion can provide jobs in the United States for over 200,000 workers.

Conclusions and recommendations

Several conclusions grow out of this analysis.

First, the debt problems of the developing countries appear manageable — in terms of the impact on the international financial system — provided there is a proper blend of adjustment and financing among LDCs, industrial countries, banks, and official institutions. The blueprint sketched out is not easy, but it is feasible. Renewed expansion of LDC export markets and gradually improving LDC terms of trade depend crucially on sustained, albeit moderate, economic recovery in industrial countries. Such recovery requires a cautiously expansive redirection of policies in industrial countries that diminishes real interest rates and holds inflationary expectations in check.

Second, it will still take considerable time — perhaps three to four years of sustained effort — for major LDC borrowers to restore their creditworthiness, regain normal access to financial markets, and resume robust economic growth. It may take less time for several major borrowers to reduce their debt levels and debt servicing requirements, relative to exports, to the positions that prevailed in the mid-1970s.

Third, while dealing with the international debt situation requires a sharing of burdens, it will also mean sharing the benefits. To be sure, debtor countries and banks stand to gain, but so too do the industrial nations. The LDCs are major markets for exports from all industrial countries and especially those from the United States. Our own return to prosperity depends in part on resolving the global debt problem.

Fourth, even after current debt problems are resolved, the foregoing analysis suggests countries should not count on the same rapid pace of bank lending as in the recent past. Fewer banks are likely to participate in new LDC lending in the future. Those that continue will do so at a slower pace after their recent credit experience.

Fifth, raising IMF quotas by 50% and enlarging the General Arrangements to Borrow (GAB) facility, while making it available to nonindustrial countries are absolute necessities. As of year-end 1982, the Fund's holdings of usable currencies and SDRs are estimated to have been about $20 billion, with undrawn credit lines with various countries (excluding those under the GAB) adding close to $10 billion. Against this, the IMF already has committed, or is about to commit, almost $25 billion through programs with Mexico, Brazil, Argentina, and other countries. Hence, the Fund's uncommitted lending pool is being depleted rapidly.

A 50% increase in IMF quotas would eventually yield more than $15 billion in new usable currencies, and another $15-$20 billion would be provided by the proposed enlargement and revision of the GAB. Saudi Arabia reportedly indicated that it would lend over $2 billion to the GAB. In addition, it would provide the IMF with over $4 billion, the final installment under a 1981 agreement, under which more than $8 billion already has been contributed. By adding approximately $35-$40 billion to available resources, these funding actions would restore the Fund's liquidity and enable it to maintain its lending momentum for several years, as is required even under such favorable assumptions as those of Scenario A, described earlier. Sustained IMF lending is crucial to smooth the transition until major LDC borrowers regain access to markets.

Sixth, the World Bank, the IMF's half-forgotten twin, needs to play a bigger role. In recent years, it has focused increasingly on the poorest countries — those that require concessional assistance through IDA — while seeking to "graduate" those higher-income countries with access to the international capital markets. This policy reflected great optimism about the export prospects of developing countries — optimism based on projections of high economic growth in the OECD countries, low interest rates, and improving terms of trade for the LDCs. Unfortunately, the actual experience has been painfully different, and many of the World Bank's LDC clients now find themselves burdened with high-cost, short-term obligations to commercial banks. As a result of recent events, it may be years before some LDCs have access to the international bond markets. Ensuring that they get the long-term funds needed for economic development may require the IBRD to rethink its lending priorities. It will also require governments to speed up the planned $40 billion increase in the bank's capital. In the meantime, the World Bank should accelerate its project and structural-adjustment lending to support, in a major way, those LDCs that show a willingness to take actions that promote exports. And it should revise self-imposed procedures that slow the commitment and disbursement of funds.

Seventh, we clearly must strengthen the international financial system to make it better able to deal with emergency situations and to reduce the likelihood of their recurrence. Institutional arrangements for handling emergency problems during the interval between their emergence and the conclusion of negotiations for IMF-supervised adjustment programs need to be improved. So far, crisis situations, such as those involving Mexico, Brazil, and Hungary, have been handled successfully on an ad hoc basis because bridge financing from central banks, coordinated through the BIS, was forthcoming along with assistance directly from the U.S. government and the banks. Procedures for supplying emergency funds are now complex, involving varied institutional arrangements among major countries for obtaining governmental or central bank approvals.

The role of the BIS could be strengthened by broadening its own capacity to furnish short-term liquidity. At the same time, the past hesitancy of the United States to become a member of the BIS should be reconsidered. Credit lines with the central banks of the G-10 countries could be established that would make it possible for the BIS to provide short-term assistance to the main borrowing countries. Such financing, of course, would have to be contingent on progress toward agreement with the IMF, so as to complement, rather than substitute for, Fund assistance and conditionality. This would be well within the original intent of the BIS, which was established in part to deal with international debt problems.

The international financial system also needs better information and analysis to assist borrowers and lenders in avoiding surges or excessive concentrations of international credit. Both the Fund and the BIS are well suited to help formulate improved yardsticks about debt service capabilities and other criteria of country creditworthiness. The IMF has expertise and information on countries' future borrowing requirements and behavior; the BIS and the central banks of the industrial countries have detailed information on bank lending and the maturity profile of outstanding bank credits. By exchanging information, a more complete picture could be formed of the external financial conditions of the debtor countries. The central banks could then use such information in their dealings with commercial banks in their jurisdiction. The IMF, in turn, could better guide the deficit countries in avoiding rapid debt buildup, especially short-term debt concentrations.

In this connection, a positive development is under way in the private sector through the establishing of an institute intended to improve the quality of timely country financial data available to the international banking community.

In concluding my remarks, it may be helpful to recall that we have been through similar problems in the past. In early 1974, for example, many feared that the quadrupling of the world price of oil had created a balance of payments problem so severe that it was certain to bring on global financial collapse. Yet we overcame that problem — with calm reason and international cooperation. We can do it again. We have already moved back from the precipice. Although there are no guarantees, a solution to the world debt problem is within reach. Bank lending must continue to support LDC adjustment efforts. Industrial countries must develop policies that will sustain economic recovery. The IMF and the World Bank must receive strong support. These two institutions were created at the end of World War II specifically to prevent a recurrence of the kind of inward-looking policies that plunged the world into depression in the 1930s. Today, at a time when there are dangerous parallels to conditions of 50 years ago, the IMF and the World Bank have never been more needed. We must not pull back from our international responsibilities, nor should we seem to encourage other countries to pull back from theirs. It is in the self-interest of all parties that each does its part.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Effective exchange rates

Index numbers, March 1973=100. The index of the effective exchange rate for a currency is a measure of that currency's trade-weighted average appreciation or depreciation vis-à-vis the currencies of 15 other major countries. The exchange rates used in the construction of this index are the averages of daily noon spot exchange rates in New York for months and for weeks ending on dates shown. The trade weights used are based on 1976 bilateral trade in manufactures.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
pre-June 1970 parities	118.5	94.9	79.3	116.2	91.6	97.5	110.9	95.9	98.2	88.3	97.8	97.9	98.1	102.2	92.2	98.4
Smithsonian central rates	107.0	101.3	88.7	116.0	95.4	96.1	108.3	97.0	99.1	91.6	98.0	96.0	96.3	100.5	91.7	98.1
1982																
January	109.2	84.6	121.5	78.0	137.0	81.9	45.9	104.6	118.7	186.2	122.2	85.6	107.8	81.4	80.8	63.2
February	112.3	83.5	117.6	78.5	136.8	81.8	45.9	102.0	118.8	186.8	121.9	84.5	108.8	81.6	80.7	63.3
March	114.1	83.3	115.6	78.0	139.1	81.9	45.6	95.8	120.6	190.0	122.4	83.1	109.6	81.9	80.1	61.9
April	115.2	83.2	115.0	77.5	140.4	81.6	45.2	95.1	120.3	185.0	123.1	82.9	110.0	81.8	80.3	61.8
May	113.6	82.3	117.2	77.4	141.6	82.3	45.2	95.7	120.7	180.9	123.8	84.1	109.2	81.4	79.3	62.1
June	118.8	80.2	112.9	78.5	142.0	78.9	45.0	95.4	121.6	178.1	123.8	82.5	110.1	81.9	80.2	61.4
July	119.9	80.7	112.1	78.8	142.6	76.8	45.1	95.6	122.0	179.7	124.1	82.0	108.8	82.0	79.3	61.1
August	119.8	82.5	110.9	78.9	142.8	76.5	45.0	95.3	122.8	179.6	124.3	81.7	104.2	82.7	77.3	61.2
September	120.4	83.3	109.7	79.2	143.2	75.8	45.0	94.8	123.6	179.1	124.6	81.3	102.0	82.6	76.4	61.4
October	121.9	83.9	107.2	80.0	144.4	76.0	44.7	94.5	124.9	179.5	124.2	83.5	102.2	73.0	76.5	61.1
November	121.9	84.3	110.9	77.6	144.8	76.3	44.2	94.6	125.3	180.0	125.9	84.7	103.1	70.3	76.6	59.6
December	118.7	83.0	119.5	74.1	147.3	77.5	44.7	94.9	125.7	184.5	127.1	86.2	102.7	69.3	76.0	54.2
3	119.7	83.1	116.7	75.5	146.6	77.2	44.3	94.2	125.4	182.4	126.3	85.3	103.9	69.6	76.0	58.6
10	119.1	82.9	118.8	74.6	146.9	77.3	44.6	94.9	125.8	184.4	127.0	86.1	103.8	69.6	76.0	53.8
17	119.2	83.1	118.6	74.4	147.2	77.4	44.6	94.8	125.8	184.4	126.8	85.9	103.1	69.5	76.0	53.5
24	118.3	83.0	120.0	73.1	147.6	77.6	44.8	95.3	125.7	187.6	126.8	86.5	102.3	69.3	76.0	53.6
31	117.2	82.9	122.5	73.1	147.7	77.8	45.0	95.2	125.8	187.3	127.2	86.7	101.4	69.1	75.8	53.7
1983																
January 7	116.1	83.3	124.7	72.5	148.1	77.8	45.0	95.0	126.0	189.1	127.2	86.7	101.4	69.0	75.8	53.5
14	115.9	83.8	124.9	70.6	148.0	77.9	45.3	95.2	126.6	192.6	127.4	87.2	101.5	69.1	76.2	53.4
21	117.2	83.8	123.4	71.5	146.9	77.4	45.1	95.4	126.5	192.3	127.1	86.6	102.3	69.3	76.5	53.4

Real effective exchange rates

Index numbers, March 1973=100. The index of the real effective exchange rate is the index of the effective exchange rate adjusted for inflation differentials which are measured by wholesale prices of nonfood manufactures. Exchange rates and trade weights used in the construction of this index are the same as those used for effective exchange rate indices. Annual figures are averages of months.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
1979	96.3	92.1	95.7	118.4	103.9	98.9	93.0	95.8	100.5	116.8	107.6	100.7	92.6	99.0	88.2	109.0
1980	98.0	91.3	93.4	137.9	100.8	100.6	95.9	90.6	97.1	106.5	108.2	93.3	94.8	100.5	89.7	103.1
1981	108.7	91.4	94.3	140.9	96.6	98.9	91.2	85.0	93.1	105.5	106.1	89.1	99.2	101.3	98.9	97.6
1982	117.4	91.8	83.5	135.2	99.7	96.3	89.9	77.5	97.1	109.1	107.0	86.9	100.3	94.8	101.3	98.4
1982																
January	110.8	92.8	90.5	135.8	98.0	97.3	89.7	82.7	95.9	112.4	106.4	87.6	102.2	96.7	99.7	98.5
February	113.1	92.1	87.4	136.7	97.1	98.5	90.5	80.5	95.7	112.2	106.0	86.6	103.5	97.6	101.0	99.0
March	114.4	92.4	85.7	135.6	98.1	98.4	90.0	77.4	96.7	114.0	107.3	85.8	102.9	98.2	101.3	97.8
April	114.8	93.0	85.1	134.7	98.6	98.9	89.5	77.1	96.2	111.0	107.6	86.2	103.8	98.1	102.0	98.3
May	112.7	92.1	86.4	134.3	99.1	100.6	89.6	77.9	96.3	108.5	107.8	86.8	103.5	97.7	101.3	99.7
June	118.5	89.4	82.5	136.2	99.7	96.3	88.9	77.7	96.9	107.1	107.3	86.3	103.2	97.7	102.8	99.3
July	120.3	89.4	81.3	136.9	99.9	94.3	89.2	77.5	96.9	107.3	107.5	85.8	101.8	98.3	102.4	99.2
August	120.4	90.9	80.4	137.1	100.0	93.3	89.7	77.5	97.2	107.3	107.4	86.1	97.7	99.1	100.5	99.8
September	119.8	92.9	79.7	138.1	100.4	92.5	90.0	76.9	97.5	107.2	107.1	85.8	96.4	99.0	100.1	99.8
October	122.7	92.3	77.2	139.5	100.9	92.7	89.7	76.6	98.0	107.4	107.5	88.7	96.8	88.7	100.1	99.6
November	122.7	92.6	79.7	135.4	100.7	93.6	89.7	76.4	98.1	107.6	107.4	90.1	97.8	86.6	101.1	97.5
December	119.1	91.2	85.7	130.1	102.6	95.4	90.7	76.5	98.0	109.4	108.2	92.1	97.3	85.1	101.0	88.8

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, and Singapore
billions of dollars (rounded to nearest $5 billion), at end of period

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	
										Jun[r]	Sep
Estimated size											
Gross	315	395	485	595	740	950	1 235	1 525	1 860	1 915	2 015
Liabilities to nonbanks	55	80	90	115	145	190	260	345	440	465	475
Liabilities to central banks	40	60	65	80	100	115	145	150	130	110	105
Liabilities to other banks[a]	220	255	330	400	495	645	830	1 030	1 290	1 340	1 435
Net	160	220	255	320	390	495	590	730	890	910	940
Claims on nonbanks	70	105	130	165	210	265	330	425	530	550	575
Claims on central banks and on banks outside market area[b]	70	95	105	130	150	185	200	230	275	270	275
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	20	25	30	45	60	75	85	90	90
Eurodollars as % of gross liabilities in all Eurocurrencies	74	76	78	80	76	74	72	75	78	80	81

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1979	1980	1981	1982							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Eurodollar:											
overnight	14.00	19.25	12.87	13.62	14.88	11.50	9.00	10.50	9.50	8.88	9.25
7-day fixed	14.00	19.75	13.00	14.00	15.38	11.75	9.25	10.50	9.50	9.00	9.25
one month	14.37	19.12	13.31	14.38	15.44	12.13	10.94	11.00	9.62	9.38	9.12
three months	14.44	17.55	13.75	14.38	15.81	13.06	11.88	11.44	10.00	9.88	9.19
six months	14.44	16.37	14.81	14.44	16.00	13.38	12.44	11.94	10.19	10.13	9.50
twelve months	12.87	14.87	14.75	14.44	16.00	14.06	12.87	12.19	10.50	10.38	9.62
Euromark:											
one month	8.50	8.87	10.44	8.56	8.87	8.87	8.12	7.62	7.00	7.19	5.87
three months	8.56	8.87	10.50	8.56	9.00	8.87	8.19	7.75	7.00	7.06	5.87
six months	8.56	8.87	10.56	8.56	9.12	9.12	8.44	7.94	7.00	7.06	5.94
twelve months	8.12	8.93	10.25	8.50	9.25	9.12	8.44	7.94	6.94	7.00	6.00
Euro-Swiss franc:											
one month	5.19	6.00	8.87	3.63	4.37	3.25	3.25	3.81	3.00	3.94	2.81
three months	5.75	6.00	9.25	4.25	5.06	4.25	4.00	4.37	3.56	4.06	3.25
six months	5.87	5.75	9.25	4.94	5.94	5.12	4.88	4.81	4.12	4.06	3.44
twelve months	5.56	5.50	8.50	5.06	6.00	5.12	4.94	4.81	4.19	4.19	3.44
Eurosterling:											
one month	16.75	14.75	15.37	13.37	13.00	11.88	11.00	10.88	9.87	10.44	10.56
three months	16.75	14.75	15.69	13.37	13.06	11.81	10.81	10.50	9.44	10.44	10.44
six months	16.75	14.25	15.69	13.37	13.06	11.81	10.81	10.50	9.44	10.38	10.31
twelve months	15.25	14.00	15.37	13.37	13.13	11.94	10.81	10.50	9.44	10.31	10.31
Euro-French franc:											
one month	13.87	11.12	15.75	29.50	15.50	14.75	21.00	16.25	20.00	19.50	23.00
three months	14.00	11.75	17.00	26.75	16.75	16.00	23.75	18.00	20.00	19.75	24.00
six months	14.12	12.25	18.00	23.75	18.00	17.37	22.75	19.00	20.00	20.38	22.00
twelve months	13.75	12.87	18.25	23.75	18.63	18.00	21.00	19.25	19.00	20.00	19.75
Euroyen:											
one month	7.32	9.12	6.12	7.06	7.25	6.69	7.06	7.00	6.75	7.31	6.75
three months	8.31	9.25	6.12	7.12	7.25	7.12	7.31	7.25	6.87	7.25	6.75
six months	8.62	9.62	6.87	7.12	7.31	7.38	7.44	7.50	6.94	7.19	6.81
twelve months	7.94	9.37	6.87	7.38	7.25	7.12	7.44	7.56	7.00	7.19	6.81

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	1981	1982	1982		1983	Jan	
				Nov[r]	Dec[r]	Jan[p]	1983	1982
Industrial countries	**39 100**	**86 022**	**42 507**	**1 615**	**1 662**	**1 562**	**1 562**	**4 923**
Australia	2 475	1 680	4 721	150	275	—	—	1 502
Canada	1 743	4 112	3 838	—	60	—	—	1 750
Denmark	1 720	1 661	789	—	19	1 000	1 000	85
France	1 745	3 912	5 653	70	63	—	—	—
Greece	1 333	1 039	770	20	—	20	20	—
Ireland	237	1 361	401	—	—	—	—	—
Italy	6 268	6 030	3 457	302	153	92	92	177
Norway	685	713	2 069	—	100	—	—	27
Portugal	745	1 590	1 388	80	150	—	—	51
Spain	5 457	3 242	1 806	220	194	—	—	155
Sweden	1 370	1 867	649	174	50	—	—	—
United Kingdom	1 470	747	1 635	80	—	—	—	37
United States	6 719	54 784	6 566	230	470	450	450	779
Others[a]	7 133	3 284	8 765	289	128	—	—	360
Developing countries	**35 054**	**45 239**	**40 756**	**2 412**	**2 382**	**5 564**	**5 564**	**2 296**
Non-OPEC countries	24 009	33 369	28 251	1 592	2 122	5 327	5 327	1 685
Argentina	2 506	2 534	1 565	—	1 100	—	—	80
Brazil	4 158	5 751	5 716	485	316	—	—	705
Chile	1 322	2 204	1 194	—	—	—	—	14
Colombia	608	1 005	227	—	70	—	—	—
Korea	1 917	2 824	2 923	340	123	100	100	57
Malaysia	—	1 725	1 909	15	72	40	40	—
Mexico	5 971	7 530	7 953	450	15	5 000	5 000	435
Peru	408	1 407	1 069	—	—	—	—	—
Philippines	1 056	1 257	635	52	55	—	—	—
Taiwan	314	928	255	—	—	—	—	—
Other	5 677	6 204	4 805	250	371	187	187	394
OPEC countries	11 045	11 870	12 505	820	260	237	237	611
Ecuador	1 209	934	815	—	—	—	—	20
Indonesia	1 435	725	1 035	29	59	—	—	—
Nigeria	1 330	1 802	2 042	27	52	—	—	—
United Arab Emirates	101	363	93	—	—	—	—	—
Venezuela	6 715	7 559	6 799	164	20	237	237	496
Other	255	497	1 721	600	129	—	—	95
Communist countries	**2 809**	**1 791**	**765**	**10**	**83**	—	—	**80**
China	181	370	43	10	33	—	—	—
East Germany	303	470	8	—	—	—	—	—
Hungary	550	550	340	—	50	—	—	—
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	—	—	—	—	80
International organizations[c]	**429**	**302**	**150**	—	—	—	—	**150**
TOTAL	**77 392**	**133 354**	**84 178**	**4 037**	**4 127**	**7 126**	**7 126**	**7 449**

[a] includes multinational organizations [b] includes COMECON institutions [c] includes regional development organizations [p] preliminary
[r] revised

International bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982						
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
U.S. companies:											
U.S. dollar	10.13	11.76	12.70	13.02	13.41	13.33	13.04	12.92	11.63	11.32	11.28
Swiss franc	6.61	7.27	7.30	7.40	7.66	7.53	7.64	7.92	7.87	7.87	7.75
European companies:											
U.S. dollar	10.93	12.42	14.29	13.83	14.12	14.15	13.81	13.73	12.81	12.37	12.45
German mark	7.55	8.79	9.36	8.23	8.35	8.28	8.32	8.24	8.23	8.31	8.17
Governments:											
U.S. dollar	10.66	11.83	13.59	13.50	13.77	13.78	13.41	13.30	12.62	12.00	12.51

*New international bond issues**

new issues in period, in millions of dollars

	1980	*1981*	*1982*	*1982*		*1983*	*Jan*	
				Novr	*Decr*	*Janp*	*1983*	*1982*
By type:								
Eurobonds, total	**23 970**	**31 616**	**49 839**	**3 773**	**1 838**	**4 521**	**4 521**	**4 007**
by category of borrower								
U.S. companies	4 107	6 178	12 596	435	41	387	387	1 493
Foreign companies	9 032	12 882	13 231	1 386	597	685	685	1 597
State enterprises	5 839	7 496	13 529	656	488	1 487	1 487	883
Governments	3 045	2 629	7 107	1 047	512	1 662	1 662	34
International organizations	1 947	2 431	3 376	249	200	300	300	—
by currency of denomination								
U.S. dollar	16 427	26 830	42 930	2 472	1 697	4 040	4 040	3 667
German mark	3 607	1 277	2 487	403	103	253	253	22
Dutch guilder	1 043	529	645	36	—	—	—	—
Canadian dollar	279	634	1 181	33	—	20	20	248
European composite units	65	309	1 301	739	38	208	208	45
Other	2 549	2 037	1 295	90	—	—	—	25
Foreign bonds outside the United States, total	**14 521**	**13 817**	**19 879**	**1 318**	**689**	**1 647**	**1 647**	**2 221**
by category of borrower								
U.S. companies	307	592	1 971	—	98	103	103	108
Foreign companies	3 157	3 384	4 184	384	171	563	563	508
State enterprises	2 830	3 701	5 429	429	190	240	240	668
Governments	4 086	2 762	3 494	175	49	251	251	239
International organizations	4 141	3 378	4 801	330	181	490	490	698
by currency of denomination								
German mark	4 839	1 310	2 745	255	—	411	411	418
Swiss franc	7 617	8 285	11 129	678	367	993	993	1 394
Dutch guilder	259	481	957	72	38	—	—	139
Japanese yen	1 088	2 457	3 418	239	187	218	218	246
Other	718	1 284	1 630	74	97	25	25	24
Foreign bonds in the United States, total	**3 429**	**7 552**	**6 096**	**149**	**—**	**39**	**39**	**228**
by category of borrower								
Canadian entities	2 136	4 630	3 330	49	—	9	9	200
International organizations	550	1 375	1 700	—	—	—	—	—
Other	743	1 547	1 066	100	—	30	30	28
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**61 142**	**4 230**	**2 006**	**5 367**	**5 367**	**5 229**
Australia	539	991	2 167	91	21	207	207	45
Austria	1 859	1 557	1 668	39	—	42	42	118
Canada	3 797	10 648	11 909	387	49	329	329	823
Denmark	1 125	695	1 019	57	—	313	313	13
Finland	392	672	815	76	—	105	105	44
France	2 820	3 156	7 393	353	308	1 146	1 146	531
Italy	904	1 108	1 746	729	—	99	99	284
Japan	5 309	6 928	8 213	1 017	466	701	701	1 194
Netherlands	1 585	630	865	36	—	56	56	—
New Zealand	293	1 107	1 375	92	300	—	—	—
Norway	892	530	832	—	—	—	—	22
Sweden	3 244	2 050	2 729	105	462	1 298	1 298	226
United Kingdom	1 733	1 408	1 281	396	100	40	40	—
United States	5 587	6 770	14 567	435	139	490	490	1 601
Developing countries	**2 485**	**4 769**	**4 930**	**431**	**140**	**50**	**50**	**484**
Non-OPEC countries	1 942	4 338	3 890	431	90	50	50	484
Brazil	349	60	91	—	—	—	—	—
Korea	68	323	172	10	20	50	50	20
Mexico	544	3 012	1 919	—	—	—	—	377
OPEC countries	543	431	1 040	—	50	—	—	—
Venezuela	398	291	385	—	—	—	—	—
Communist countries	**65**	**75**	**65**	**—**	**—**	**—**	**—**	**45**
International organizations	**6 638**	**7 163**	**9 677**	**579**	**381**	**790**	**790**	**698**
TOTAL	**41 920**	**52 985**	**75 814**	**5 240**	**2 527**	**6 207**	**6 207**	**6 456**

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*Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.

Central bank discount rates

	1979	1980	1981	1982				Current	
	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	end Dec	Jan 24 1983	effective since
United States	12.00	13.00	12.00	12.00	12.00	10.00	8.50	8.50	Dec 14, 82
Canada	14.00	17.36	14.66	15.11	16.58	12.98	10.26	9.81	Jan 20, 83
Japan	6.25	7.25	5.50	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	17.00	14.00	14.37	13.00	12.50	10.00	10.00	11.00	Jan 12, 83
Belgium	10.50	12.00	15.00	13.00	14.00	12.50	11.50	11.50	Nov 12, 82
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	6.00	7.50	7.50	7.50	7.50	7.00	5.00	5.00	Dec 3, 82
Italy	15.00	16.50	19.00	19.00	19.00	18.00	18.00	18.00	Aug 24, 82
Netherlands	9.50	8.00	9.00	8.00	8.00	7.00	5.00	4.50	Jan 14, 83
Austria	3.75	6.75	6.75	6.75	6.75	6.25	4.75	4.75	Dec 3, 82
Denmark	11.00	11.00	11.00	11.00	11.00	11.00	10.00	10.00	Nov 30, 82
Finland	8.50	9.25	9.25	9.25	8.50	8.50	8.50	8.50	Jun 1, 82
Ireland	16.40	12.75	17.15	18.30	18.30	14.55	14.35	14.35	Dec 23, 82
Norway	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	Nov 30, 79
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.00	12.00	11.00	10.00	10.00	10.00	10.00	9.00	Jan 21, 83
Switzerland	2.00	3.00	6.00	5.50	5.50	5.00	4.50	4.50	Dec 3, 82
Argentina	89.90	87.01	98.50	99.87	87.23	128.54	128.54	128.54	Sep 30, 82
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	7.00	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	11.00	13.00	14.00	14.00	14.00	14.00	13.00	13.00	Sep 30, 82

Day-to-day money rates

monthly averages

	1979	1980	1981	1982							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	13.78	18.90	12.37	14.45	14.15	12.59	10.12	10.31	9.71	9.20	8.77
Canada	13.83	15.61	14.53	15.22	15.55	16.16	15.03	13.58	12.10	10.91	10.63
Japan	8.02	9.49	6.70	7.17	7.19	7.19	7.18	6.99	6.92	6.68	6.95
Australia	7.84	9.51	12.84	15.51	15.01	13.39	15.09	13.23	13.27	12.52	11.04
United Kingdom	14.87	13.00	9.13	9.13	8.31	10.10	9.75	9.80	8.56	8.33	6.70
Belgium	10.65	9.68	12.78	12.95	11.68	13.13	11.76	10.52	11.13	10.51	9.43
France	12.17	10.87	15.46	16.41	15.98	15.05	14.58	14.11	13.91	13.18	12.88
Germany	9.15	9.13	10.65	9.08	9.00	9.03	8.74	7.96	7.48	7.02	6.07
Italy	16.00	17.50	20.63	20.50	20.41	20.13	19.69	18.63	18.63	18.86	19.00
Netherlands	15.67	8.37	10.67	8.87	7.63	8.94	8.63	7.33	7.23	6.13	n.a.
Austria	8.50	11.50	7.50	9.75	9.62	10.50	9.25	7.75	6.25	6.38	6.00
Finland	13.53	12.50	11.30	11.50	11.50	11.50	11.50	11.45	11.70	11.50	11.50
Ireland	16.88	13.31	16.88	19.25	18.94	18.25	15.62	16.00	13.13	15.50	14.54
Spain	9.61	16.74	18.73	17.84	22.34	17.29	13.96	13.78	20.54	23.18	20.30
Sweden	11.99	11.41	13.82	13.99	14.65	14.98	14.47	15.22	13.30	12.51	8.63
Switzerland	1.25	5.75	3.38	1.25	1.50	1.50	1.50	2.25	1.87	1.38	1.25
Argentina	78.22	70.84	84.93	91.51	74.82	80.72	101.34	127.09	135.66	132.70	155.32
Brazil	37.51	62.71	103.74	99.86	99.86	104.43	130.32	108.40	125.22	136.85	150.42
Hong Kong	14.19	14.05	10.75	14.75	13.50	11.75	8.25	9.37	11.05	11.13	9.13
Korea	15.00	14.82	14.40	12.00	13.35	13.39	13.23	13.39	13.58	13.75	13.84
Philippines	16.25	15.70	14.70	14.63	11.37	8.20	10.56	12.68	13.01	10.90	n.a.
Singapore	10.17	10.23	3.96	9.63	6.39	6.44	7.56	5.67	6.16	5.34	n.a.
South Africa	3.81	5.60	12.34	14.33	14.62	14.94	14.72	14.85	14.45	13.50	12.90
Eurodollars	14.41	19.22	12.29	14.63	14.13	12.57	10.10	10.52	9.88	9.40	9.15

Treasury bill rates

bond-equivalent yields, at or near end of month

	1979	1980	1981	1982							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	12.39	14.87	11.90	12.00	13.15	10.63	8.01	7.64	8.13	8.10	8.15
Canada	13.66	17.01	14.41	15.18	16.33	15.25	13.70	12.73	11.21	10.72	9.80
Japan	5.68	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	9.31	12.17	13.27	14.88	15.47	14.61	14.43	11.62	13.72	12.98	9.39
United Kingdom	16.45	13.45	15.31	13.17	12.70	11.58	10.26	9.99	9.40	10.12	9.96
Belgium	14.40	12.75	16.00	15.00	15.75	14.50	13.75	12.75	12.75	12.25	12.25
Ireland	16.37	12.84	17.35	18.25	18.05	16.76	14.64	14.48	12.74	12.87	14.70
Italy	15.62	16.87	21.36	20.05	19.25	19.27	19.01	17.67	18.05	19.09	n.a.
Netherlands	12.75	8.00	9.75	8.75	8.19	8.75	7.38	7.00	6.50	5.88	n.a.
Spain	15.00	17.20	15.83	16.09	16.57	16.49	15.53	15.15	16.79	17.38	16.96
Sweden	9.74	12.87	9.20	9.22	9.22	10.25	10.25	10.26	10.26	9.20	8.18
Argentina	71.04	66.19	77.10	56.00	53.46	108.31	133.36	133.36	133.36	133.36	133.36
Brazil	31.68	110.60	110.21	110.52	112.91	122.71	131.87	135.53	132.91	132.91	n.a.
Korea	19.53	16.35	16.00	14.40	14.40	14.40	14.40	14.40	8.00	8.00	8.00
Mexico	17.89	27.73	33.22	43.62	51.30	53.01	55.88	49.72	43.02	n.a.	n.a.
New Zealand	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
Philippines	12.63	12.74	13.40	14.64	14.75	14.87	14.18	14.30	14.32	14.48	n.a.
Singapore	6.18	6.77	3.03	3.93	3.93	3.62	3.30	3.09	2.96	3.07	n.a.
South Africa	4.30	6.31	14.55	16.57	17.06	17.12	16.91	16.12	16.06	15.12	14.62

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1979	1980	1981	1982							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	13.70	17.62	12.78	13.58	15.19	11.98	9.61	10.26	8.68	8.68	8.81
Canada	14.15	17.50	15.25	15.90	17.20	15.70	14.20	12.95	11.65	11.00	9.95
Japan	8.01	9.80	6.30	7.08	7.19	7.02	7.22	7.05	6.89	7.06	6.90
Australia	10.30	13.00	16.00	18.25	19.10	16.95	17.00	14.10	15.50	13.80	10.65
United Kingdom	17.00	14.75	15.69	13.44	13.00	11.94	10.75	10.56	9.56	10.38	10.50
Belgium	14.45	13.10	16.00	14.75	15.75	14.75	13.90	13.00	12.85	12.50	12.35
France	12.62	11.56	15.25	16.13	14.87	14.87	14.38	13.81	13.06	12.94	12.75
Germany	8.70	10.20	10.50	9.15	9.40	9.30	8.30	8.00	7.33	7.25	6.20
Ireland	18.12	13.63	18.50	20.00	19.88	17.50	15.62	15.38	13.69	13.63	15.75
Italy	17.12	17.37	21.00	20.50	20.38	20.00	18.75	18.50	18.50	18.80	19.00
Netherlands	13.00	9.37	11.00	8.75	8.87	9.12	8.13	8.00	6.38	6.75	5.13
Spain	13.20	17.40	15.52	15.62	18.02	17.32	15.13	13.91	17.30	19.27	16.55
Switzerland	6.12	7.50	10.12	4.38	5.12	4.37	4.00	4.62	3.75	4.25	4.87
Hong Kong	14.37	17.69	14.18	14.75	14.25	12.75	10.75	10.00	11.00	11.25	10.13
Korea	19.53	16.35	15.69	12.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	16.00	14.25	16.05	17.30	17.25	17.25	17.50	17.75	18.00	17.25	16.75
Philippines	10.41	15.01	17.61	17.49	17.03	17.06	16.69	16.50	15.89	16.00	n.a.
Singapore	10.12	14.12	7.81	9.94	9.12	8.19	8.31	7.69	7.69	7.31	n.a.
South Africa	4.72	7.12	15.47	17.32	17.92	18.19	17.59	17.10	17.21	15.75	15.26

Commercial bank deposit rates

at or near end of month

	1979	1980	1981	1982							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	13.55	16.25	12.62	13.00	14.25	11.00	10.10	9.75	9.15	8.70	8.25
Canada	14.05	17.00	15.20	15.80	17.10	15.60	14.05	12.85	11.60	10.95	9.85
Japan	8.37	9.00	6.50	7.03	7.24	7.20	7.35	7.30	7.27	7.15	7.00
Australia	10.25	12.71	15.65	18.16	18.25	16.64	17.51	14.69	14.96	14.56	10.20
United Kingdom	16.81	14.87	15.69	13.37	13.00	11.81	10.63	10.81	9.50	10.44	10.31
Belgium	14.50	12.63	15.50	14.37	15.12	14.38	13.13	12.75	12.50	12.25	12.25
France	12.50	11.25	9.16	9.60	9.40	8.97	8.75	8.53	8.43	8.19	8.24
Germany	7.75	8.00	9.50	8.25	8.50	8.25	7.00	7.00	6.60	6.50	6.00
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	13.50	9.50	11.00	8.75	8.75	8.87	8.13	7.88	6.38	6.75	n.a.
Austria	8.50	11.25	9.63	8.50	8.50	8.50	8.62	8.25	7.75	7.13	6.25
Denmark	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	9.00	9.00
Finland	4.25	5.00	5.00	5.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Ireland	17.87	13.63	18.38	19.88	19.50	17.37	15.50	15.25	13.63	13.50	15.25
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	4.50	11.78	12.19	12.06	12.02	12.44	12.33	13.04	13.03	n.a.
Sweden	8.75	9.75	10.25	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Switzerland	4.75	7.50	8.75	3.25	5.25	3.50	3.50	3.25	3.00	3.00	3.00
Argentina	72.64	72.00	86.76	70.00	85.89	60.83	60.83	85.16	85.16	103.42	103.42
Brazil	55.55	96.49	110.05	108.50	109.15	113.90	99.00	103.18	107.53	122.51	118.26
Hong Kong	9.25	13.00	12.50	11.50	11.50	11.00	9.00	9.00	9.00	8.50	7.50
Korea	15.00	14.82	14.40	12.00	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	16.75	26.15	31.81	40.86	48.05	50.60	53.29	49.75	45.32	n.a.	n.a.
New Zealand	15.90	13.50	15.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50
Philippines	10.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	10.31	13.19	7.50	9.31	9.00	7.75	8.00	7.31	7.00	7.00	n.a.
South Africa	4.82	7.87	14.75	17.05	17.75	17.87	17.17	16.50	16.53	15.18	15.25
Venezuela	15.00	16.00	14.75	15.50	15.50	16.00	15.50	14.50	15.00	15.00	15.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1979	1980	1981	1982							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	15.25	21.50	15.75	16.50	16.50	15.50	13.50	13.00	12.00	11.50	11.50
Canada	15.00	18.25	16.50	17.00	18.25	17.25	15.50	15.00	13.75	13.00	12.50
Japan	6.51	8.16	6.95	6.36	6.34	6.33	6.32	6.31	6.35	6.35	6.35
Australia	10.75	13.50	15.75	17.50	17.50	17.50	17.50	17.00	16.50	16.50	15.00
United Kingdom	18.00	15.00	14.50	13.00	12.50	12.00	10.50	10.00	9.50	10.00	10.00
Belgium	15.25	15.75	18.00	17.50	17.50	17.50	16.75	16.00	16.00	15.50	15.50
France	12.50	12.25	14.00	14.00	14.00	13.75	13.25	13.25	12.75	12.75	12.25
Germany	9.75	11.50	13.00	11.50	11.50	11.50	11.50	10.50	10.50	10.00	8.75
Italy	19.50	20.50	22.50	21.75	21.75	21.75	20.75	20.75	20.75	20.75	20.75
Netherlands	15.00	10.75	12.00	9.50	9.75	10.00	8.75	8.75	8.00	7.25	n.a.
Austria	8.50	12.50	13.50	13.00	12.25	12.25	12.25	11.50	11.50	11.75	11.75
Denmark	13.75	13.75	15.00	15.00	15.00	15.50	15.50	15.50	15.50	14.00	14.00
Finland	9.06	9.83	9.84	9.77	9.06	9.04	8.99	8.97	8.97	8.95	n.a.
Ireland	16.00	14.50	17.25	19.25	19.25	19.25	16.50	16.50	16.50	16.50	16.50
Norway	11.00	12.50	13.75	14.00	14.00	14.00	14.00	14.00	14.00	14.50	14.50
Spain	9.00	18.50	17.04	16.64	18.96	19.50	17.82	16.04	18.35	20.39	19.00
Sweden	10.75	11.75	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Switzerland	5.00	5.75	8.00	7.50	7.00	7.00	6.50	6.50	6.50	6.50	6.00
Argentina	80.00	77.00	92.60	86.26	89.00	73.00	73.00	97.33	97.33	109.50	109.50
Brazil	59.60	96.45	138.09	138.89	141.04	143.19	151.80	151.80	151.80	162.30	166.40
Hong Kong	14.50	17.00	16.00	15.00	15.00	14.00	12.00	12.00	12.00	11.00	10.50
Korea	18.50	19.50	16.50	13.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	19.00	24.25	31.81	36.26	39.59	43.23	46.42	47.88	45.99	45.51	n.a.
New Zealand	11.75	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	16.00	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	9.50	13.60	11.83	10.98	10.98	10.70	10.25	10.03	9.75	9.33	n.a.
South Africa	9.50	9.50	17.00	20.00	20.00	20.00	20.00	20.00	20.00	18.00	18.00
Venezuela	13.00	15.00	15.50	16.50	16.50	17.00	16.50	16.00	16.50	16.50	17.00

Domestic government bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	10.20	11.46	14.33	13.57	14.14	13.68	12.46	11.50	10.79	10.74	10.61
Canada	11.32	12.69	15.27	14.72	16.03	15.62	13.96	13.48	12.63	12.18	11.69
Japan	8.63	9.04	8.32	8.31	8.64	8.49	8.41	8.46	8.50	8.32	7.76
Australia	10.08	13.00	15.00	16.50	16.50	16.50	16.25	14.50	14.25	14.40	13.00
United Kingdom	13.83	13.05	15.02	13.07	13.08	13.05	11.20	10.74	10.04	10.95	10.62
Belgium	11.13	13.04	13.99	13.56	13.59	13.13	13.13	13.20	13.23	12.87	12.66
France	12.59	14.31	16.44	16.13	15.98	15.96	15.78	15.76	15.81	15.79	15.40
Germany	7.91	9.19	9.71	8.83	9.33	9.14	8.79	8.00	8.27	8.19	7.90
Italy	14.00	16.23	21.39	20.77	20.78	20.77	20.11	19.18	19.38	19.84	n.a.
Netherlands	9.29	10.48	11.28	10.29	10.53	10.50	10.24	10.00	9.26	8.92	n.a.
Austria	8.20	9.62	10.37	10.03	10.01	10.01	10.04	9.59	9.24	8.99	n.a.
Denmark	18.28	19.98	20.91	22.58	22.78	22.29	22.72	22.83	21.16	20.81	20.14
Finland	9.58	10.42	10.98	11.12	10.84	10.74	10.59	10.64	10.62	10.68	n.a.
Ireland	16.64	15.63	18.28	18.28	18.58	17.33	15.93	15.17	13.95	15.53	n.a.
Norway	10.04	10.44	12.37	13.26	12.95	12.95	13.16	13.27	13.29	13.32	13.32
Spain	n.a.	n.a.	12.50	12.50	12.50	12.50	12.50	12.50	12.75	12.75	12.75
Sweden	11.22	12.61	12.80	12.79	13.00	13.18	13.23	13.27	13.73	13.09	13.01
Switzerland	4.20	4.63	5.40	4.98	5.19	4.90	4.64	4.43	4.31	4.27	4.22
Argentina	47.94	36.84	107.98	62.77	97.25	151.14	309.96	188.74	242.86	135.02	159.88
New Zealand	12.98	12.99	12.55	12.97	12.99	12.97	12.73	12.94	12.82	n.a.	n.a.
Philippines	13.20	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	9.32	11.81	13.62	14.15	14.49	14.70	14.09	12.34	12.32	11.84	11.69
Venezuela	7.29	7.39	12.50	12.75	13.00	13.25	13.25	13.25	13.50	14.00	15.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	10.75	13.00	15.50	15.00	15.75	15.25	13.50	12.88	12.00	11.75	11.75
Canada	12.07	13.62	16.46	16.82	17.80	17.27	15.99	14.78	13.61	13.58	13.05
Japan	8.34	8.60	7.70	7.42	7.90	7.90	7.99	8.05	8.10	8.10	7.55
Australia	11.65	14.25	16.50	17.50	17.50	17.75	17.50	16.75	16.75	16.75	15.00
United Kingdom	14.96	14.21	16.55	14.60	14.62	13.86	12.53	12.51	11.68	12.34	12.34
France	12.92	15.23	17.33	16.80	16.67	16.67	16.61	16.83	16.42	16.33	15.91
Germany	8.20	9.50	10.50	9.10	9.30	9.50	9.40	9.30	8.90	8.50	8.20
Netherlands	9.95	10.71	11.03	10.21	10.51	10.65	10.32	10.19	9.34	8.49	n.a
Norway	10.53	11.24	13.36	12.40	12.90	12.90	14.14	14.94	14.46	11.69	14.13
Spain	14.20	14.82	14.76	16.72	17.98	17.42	17.86	18.36	17.90	17.33	n.a.
Sweden	10.21	11.95	12.94	12.91	12.87	12.90	12.92	12.97	13.16	13.33	13.37
Switzerland	5.53	5.63	6.60	5.82	6.05	6.05	6.12	6.08	5.96	5.89	5.92
Korea	27.80	28.20	27.00	17.10	16.40	13.90	14.00	15.00	15.30	15.90	15.90
Venezuela	14.55	16.15	17.00	17.75	17.75	18.00	17.50	17.50	17.75	18.00	18.00

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World Financial Markets

Morgan Guaranty Trust Company of New York

March 1983

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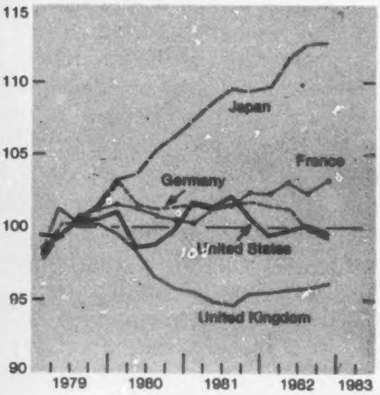
Chart 1

Real GNP

seasonally adjusted index, 1979 = 100



World recession: causes and cures*

The current recession has lasted longer than any other since World War II and is more pervasive. North America and Europe have experienced outright declines in economic activity; Japan's industrial production has stagnated; and the dynamic growth of several major developing countries has come to a halt. Unemployment throughout the non-Communist world has soared. The jobless total in the industrial countries alone is nearly 32 million and climbing. Uncounted others are underemployed or too discouraged to look for work.

Indeed, this recession, although not comparable in depth and duration to the Great Depression, has presented features reminiscent of that economic catastrophe of 50 years ago. Untimely fiscal austerity efforts, uncoordinated monetary policies, misaligned exchange rates, some tendency toward competitive devaluation, indifference to the international consequences of domestic policies, and the pernicious spread of protectionism, coupled with formidable international debt problems, could imperil the international financial system. In the 1930s it was the failure of governments to grapple constructively with these problems that tipped recession into depression. This could happen again.

Reassuringly, there are tentative signs of economic revival in the industrial countries. There is also impressive international effort to manage the international debt problem. At the same time, however, there are numerous potential obstacles that could derail the recovery or the debt strategy. These dangers and the need for flexibility in handling the inevitable problems and promoting sustained international growth should be high on the agenda at the forthcoming Williamsburg summit of the seven leading industrial countries.

The current world recession

The major industrial countries entered a period of severe economic weakness toward the end of 1979. Since then real output has increased only slightly, if at all. Real GNP (see Chart 1) in the United States and Germany is now roughly at 1979 levels and has grown about 3% a

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*Speech delivered by Rimmer de Vries, Senior Vice President, Morgan Guaranty Trust Company, at the College-Business Interaction Seminar, Calvin College, Grand Rapids, Michigan, March 2, 1983.

Chart 2

Industrial production

seasonally adjusted index, 1979=100

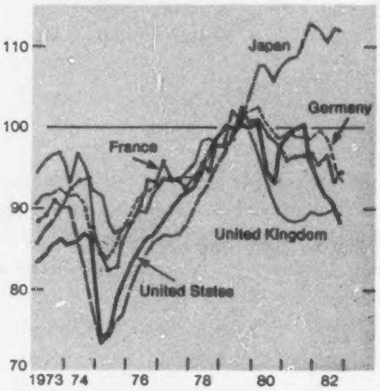


Chart 3

Unemployment rate

seasonally adjusted in percent

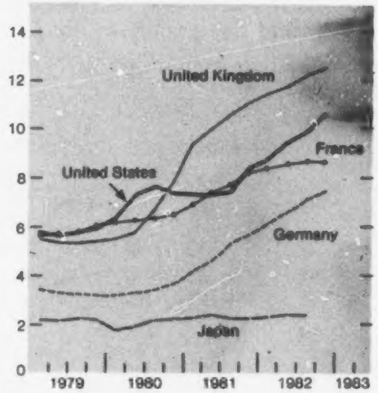
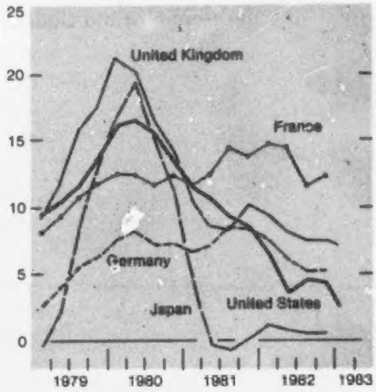


Chart 4

Wholesale prices

percent change from previous year



year in Japan. The industrial sectors of these economies are, however, much weaker than is indicated by the GNP statistics. Industrial production (see Chart 2) in most countries has fallen to the levels of late 1976 and early 1977. The slowdown of the industrial economies has also precipitated a decline in the volume of world trade. OECD imports have been falling in volume terms since 1979, when they rose 8%. Overall world trade stagnated in 1980-81 and then fell sharply in 1982.

Unemployment in the industrial countries has surged as the demand for labor has failed to keep pace with increases in the labor force. Output weakness is only partly responsible. The tendency of real wages to continue rising despite mounting unemployment, coupled with the large indirect tax costs of labor, is inducing business to substitute capital for labor. Unemployment has reached record post-World War II levels in many countries (see Chart 3). It is now over 10% in the United States, Canada, and the United Kingdom. Germany's 10.2% unemployment rate in January, before seasonal adjustment, has about doubled since January 1981. In some smaller EC countries, the jobless rate may approach 15% this year.

The slump has slowed inflation dramatically from the double-digit readings that followed the second oil-price shock. The deceleration has been particularly rapid in the United States and the United Kingdom, and inflation in Japan has also fallen rapidly (see Chart 4). Latest readings on annual consumer price inflation are about 2.5% in Japan, 4% in the United States and Germany, and 5% in Britain.

Prolonged stagnant demand and sharp appreciation of the dollar have had a drastic impact on commodity prices. Commodity prices in dollar terms increased at annual rates of about 25% through 1979 and 1980 but started to drop early in 1981. By the fourth quarter of last year, at their trough, they were 33% below their peak at the end of 1980. The sharp drop in these prices has been an important element of the general decline in inflation.

Causes of the recession

Several forces precipitated the economic downturn that started in 1980. The second oil shock, carrying the OPEC average price from $13 per barrel at the end of 1978 to over $35 early in 1981, was immediately inflationary and raised costs in the industrial world. But it was also severely deflationary in terms of real aggregate demand. The direct price effect on oil-import bills clipped $200 billion, or 3%, from the national incomes of OECD countries. The OPEC surplus on current account jumped from almost nothing in 1978 to $110 billion in 1980 — in effect a tax increase on oil-importing countries not counterbalanced until 1982 by higher spending of oil exporters. Once the mid-1970s recession following the first oil shock became evident, the major industrial countries partly offset the demand loss by relatively easy fiscal and monetary policies. But later, it was decided that the effects of these policies had been inflationary. The second oil-price hike elicited no similar response. Indeed, fiscal and monetary policies have reinforced the deflationary effect of the oil-price increase and have thereby deepened and prolonged the recession.

Anti-inflationary thinking and a desire to curb the growth of the government sector have inhibited policymakers from undertaking fiscal expansion. The aversion to further increases in public spending has been inspired by the fast growth of the government sector since 1973. Among the seven major industrial

Table 1

General government financial balances, 1980-1982

Surplus (+) or deficit (—) as percentage of nominal GNP/GDP

	1980	*1981*	*1982*
United States	—1.3	—1.0	—3.7
Japan	—4.2	—3.9	—3.3
Germany	—3.1	—4.0	—4.1
France	+0.3	—1.6	—2.9
United Kingdom	—3.2	—2.0	—2.0
Italy	—8.3	—11.9	—12.2
Canada	—2.1	—1.3	—6.4

Source: OECD

Chart 5

Real short-term interest rates

in percent

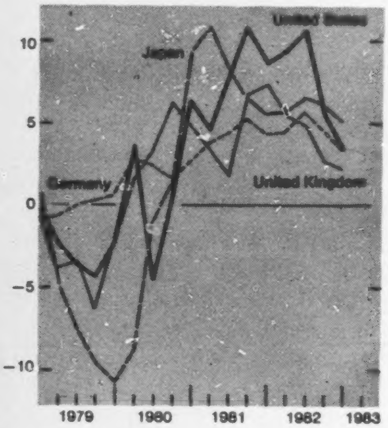
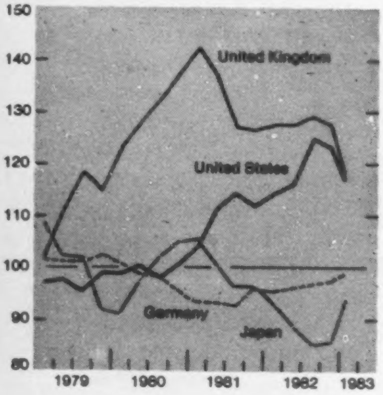


Chart 6

Real effective exchange rates

index, 1975 - 79 =100



countries, current government outlays, which ranged from 15% to 35% of GDP in 1973, increased to 25% to 45% of GDP in 1980. Much of the growth was in social programs and entitlements. The distaste for deliberate fiscal stimulus was sharpened by the failure of government revenues to keep pace with spending as economic growth faltered. The chronic budget deficits (see Table 1) that emerged in the 1970s were widely held to strain financial markets, curb private investment, and curtail economic growth. This concern prompted many governments to slow spending or raise taxes in the face of recession. Notably, the United Kingdom and Japan reduced budget deficits.

In the United States, by contrast, fiscal policy has been expansionary since 1981. The Reagan Administration's tax cuts and defense-spending increases have not been fully offset by cuts in other expenditures. Given this expansionary thrust of fiscal policy, the burden of fighting inflation in the United States fell wholly on monetary policy. Anti-inflationary monetary policy began to bite after the shift in operating procedures by the Federal Reserve in October 1979. Interest rates began to rise in real terms as it moved to curtail growth in M1. Although inflation started to subside in late 1980, nominal interest rates remained very high. Real interest rates did not peak until the middle of 1982 and even now remain high for a period of depressed activity (see Chart 5).

The tighter monetary policy in the United States induced tightening in other countries. Rising U.S. interest rates attracted capital inflows from abroad and led to significant appreciation of the dollar in real terms (see Chart 6). Other countries, fearing imported inflation, were unwilling to allow their currencies to depreciate sufficiently to offset the attraction of higher U.S. interest rates. Floating exchange rates did not allow the other industrial countries to pursue an independent monetary policy. With these tight monetary policies and limited fiscal stimulus, it is not surprising that the industrial economies underwent a severe contraction following the second oil-price shock.

The policy-induced recession in the industrial countries provoked a massive LDC debt problem as world trade contracted and the commodity terms of trade deteriorated. High interest rates aggravated the plight of borrowing countries, forcing many to deflate and further reducing aggregate demand in industrial countries.

The possibility of financial collapse in a period of weak economic activity has given rise to fears of a new world depression. In the public's mind, high unemployment, protectionism, and the international debt crises raise the specter of a replay of the thirties. A look at the 1930s can help evaluate these fears and avoid any such repetition.

The Great Depression

Two points need to be emphasized. First, the current recession — in terms of output, employment, and price consequences — in no way resembles the severity of the Great Depression. From the autumn of 1929 until the trough of the Depression in 1932, economic activity contracted rapidly. Manufacturing production fell by 49% in the United States, 16% in the United Kingdom, 40% in Germany, and 26% in France. In Japan, industrial production fell 9% from 1929 to 1931, the trough of the Japanese cycle (see Chart 7). Broader measures of output, such as national income, show declines of the same order of magnitude in most cases. World trade also contracted as domestic demand

Chart 7

Manufacturing production

index, 1925-29 = 100

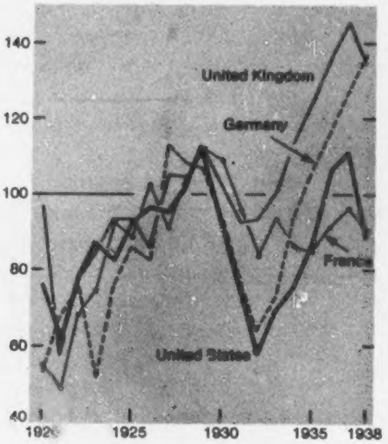
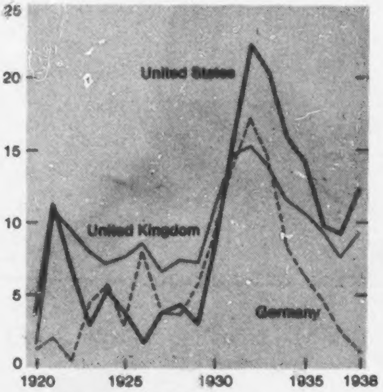


Chart 8

Unemployment

percent of labor force

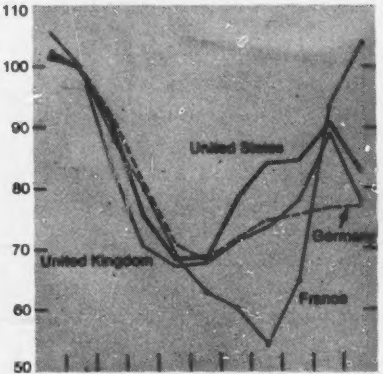


Source: A. Maddison 1980.

Chart 9

Wholesale prices

index, 1929 = 100



atrophied. The volume of world exports fell by 26% from 1929 to 1932.

Similarly, unemployment levels reached in the Great Depression far surpassed those since (see Chart 8). U.S. unemployment increased to a peak of 22% in 1933. In Britain, the unemployment rate started at a relatively high level of 7% in 1929 and increased to 15%. The German unemployment rate rose from 6% in 1929 to 17% in 1932. In France, industrial employment continued to fall until 1935, when it was 26% below the 1929 levels. Japanese industrial employment fell by 16% from 1929 to 1931. The large increase in unemployment can be traced, in part, to the increasing downward wage stickiness that characterized the Great Depression. This stickiness of nominal wages was very pronounced in Europe and especially in the United Kingdom, where real wages actually rose.

Price declines were extraordinary by today's standards. In the United States, the CPI fell 24% from 1929 to 1933 before beginning to rise again. By 1939 it still had not reached the 1929 level. Wholesale prices fell even more sharply (see Chart 9). A similar pattern occurred in other countries. In France, for example, price declines continued until 1935, when the cost of living index was 13% lower than in 1929. Now, by contrast, disinflation, rather than deflation, is the best that can be expected from periods of recession.

Even before 1929 the prices of agricultural and primary products were notably depressed. Commodity prices had risen sharply in the postwar boom to 1920 and peaked again in 1925. At this point additional supplies entered the markets and depressed prices. British import prices give an indication of the decline: import prices of foodstuffs fell 46% from 1925 to 1933, while those of raw materials declined 55%.

Policy failure in the Great Depression

The second point is that what tipped the 1930s recession into extended depression were deficient and inappropriate policies in three areas: fiscal and monetary policies failed to prevent the collapse of domestic demand; protectionism and competitive exchange rate changes led to a contraction of international demand; the United States failed to exert the leadership needed to prevent a collapse of the international financial markets.

To counteract the decline in domestic output, government policies emphasized cheap money and lower nominal interest rates. While the authorities thought that declining interest rates constituted monetary ease, monetary policies were, in fact, highly restrictive. With prices falling substantially, the low nominal interest rates translated into high real interest rates. Furthermore, money supplies were contracting, including a one-third fall in the United States between 1929 and 1932.

Fiscal policy also was restrictive. The German hyperinflation of the early 1920s had inculcated a deep fear of inflation and strengthened proponents of fiscal orthodoxy. Balanced budget policies early in the Depression aggravated the economic contraction in many countries but were particularly significant in Germany and the United States. Only after Hitler came to power in 1933 did Germany embrace deficit spending and public works. The United States did not fully endorse such programs until 1938. Roosevelt himself was concerned about large budget deficits: the renewed contraction of the U.S. economy in 1937 was prompted in part by deflationary attempts to balance the budget.

The inappropriate and inadequate response of policy to domestic contraction was compounded by beggar-thy-neighbor international policies. The political and economic nationalism that was bred by World War I induced governments to direct policies toward internal solutions to economic woes and also nurtured protectionist attitudes. Tariffs increased throughout the twenties. The Smoot-Hawley Tariff Act that took effect in the United States in 1930 prompted another round of increased tariffs elsewhere. By 1931 tariffs averaged 51% in the European countries. Tariffs also were supplemented by quantitative restrictions on trade.

The multilateral world trade system and the international exchange rate system broke down. The Depression, which started with a significant misalignment of exchange rates, such as the overvalued pound sterling and undervalued French franc, witnessed many competitive devaluations. Speculative, hot-money flows induced large exchange rate changes, forcing many countries to suspend gold convertibility and to implement exchange controls.

For many countries the loss of foreign exchange earnings from reduced exports and the sharp decline in lending by the United States and Britain made the debt service burden intolerable. Of the $6.1 billion in foreign government bonds issued in the United States from 1921 to 1929, 38% were in default by 1937. The default rate for Latin American bonds reached 72%.

An international lender of last resort would have averted the collapse of the financial markets. Continued lending would have prevented both the rash of borrowing-country defaults and the resulting loss of export markets for the industrial countries. Britain, which had traditionally acted as lender of last resort, no longer had the economic resources to continue this role. And the United States was unwilling to assume the role, either by opening its markets to imports or by increasing foreign lending.

In the aftermath of the Great Depression there was wide agreement among policymakers on what had gone wrong. Thus they created the IMF and the World Bank after World War II especially to prevent a recurrence of inward-looking, nationalistic policies, such as those that pushed the world into the Great Depression. These institutions, together with GATT, were charged with fostering international trade, liberal capital flows, and currency convertibility. These institutions played a a vital role in postwar reconstruction, political stabilization, and the subsequent era of unparalleled economic growth and prosperity.

Policy framework for the 1980s

Today policymakers face challenges in the same three areas as in the 1930s. They are searching for: 1. domestic economic policies that will promote noninflationary growth; 2. international economic policy coordination that will foster greater exchange rate stability and ward off protectionism; and 3. ways to ensure net capital flows to the developing countries. Failure to make significant progress in these areas could make economic recovery short-lived and undermine the current debt strategy.

First, industrial countries must forge an economic strategy for sustained growth that does not imperil the gains made in fighting inflation over the past three years. The *combined* thrust of monetary and fiscal policies in the United States, Germany, and Japan — each of which enjoys low inflation and no balance of payments constraints — should be stimulative. However, the balance between fiscal and monetary policies is very important. Expansionary fiscal policies together with restrictive monetary policies will not yield sustained growth. The reason: sustained growth requires rising business investment, which will not be possible if budget deficits preempt an undue share of savings and keep interest rates high. The proper mix, still elusive, requires greater fiscal responsibility and lower interest rates. Such a mix is unlikely to be achieved by each country acting in isolation. Without coordination, conflicting policies are only too likely to generate exchange rate misalignment and volatility that fosters protectionism and renews restrictive policies. While there are now favorable indications that the United States is in the early stages of recovery, sustained recovery in the industrial countries beyond 1983 is not assured unless they act in concert and achieve a properly balanced, stimulative set of policies.

The difficult issue, of course, is how to achieve interest rate reductions without rekindling inflationary expectations. Recently, declines in both short-term and long-term rates have slowed. The Federal Reserve has not tightened in response to the sharp rise in monetary aggregates because these measures have been distorted by regulatory changes and financial market innovations. However, it has also refrained from pushing rates lower and seems to favor allowing market forces to bring them down as inflationary expectations ease — a development that hinges on such factors as oil prices, labor costs, and, above all, more restrained fiscal policy.

Cutting government spending, despite the difficulties involved, should remain high on the government agenda. This is by far the best way to reduce the budget deficit. To eliminate the deficit principally by tax increases is not a sure road to recovery, as is evident from British experience. While the financial markets are too obsessed with the present budget deficit, which is more heavily influenced by cyclical conditions and high unemployment than is commonly realized, prospective deficits — the so-called structural deficit — must be trimmed as recovery advances. Official estimates of the structural element of the U.S. budget deficit see it rising from about 2.3% of GNP in fiscal 1983 to nearly 4% of GNP in fiscal 1985. On this view, with the federal budget deficit already claiming over 60% of net U.S. saving and over 20% of gross saving, crowding out of private-sector credit demands would be bound to arise once recovery takes hold, threatening an upturn in interest rates that could stifle growth. It should be pointed out, however, that estimates of the size of the structural deficit depend on judgments of how fast the U.S. economy can grow at full employment. It is quite possible that most estimates of potential growth are unduly colored by the dismal economic performance of the past decade. With oil prices stable or declining, potential growth in the 1980s could be considerably higher than commonly presumed, narrowing the full-employment budget deficit and alleviating future strains on financial markets.

A better balance between monetary and fiscal policies in the United States not only would benefit economic growth in this country but also would allow more expansionary policies in other industrial countries. Lower U.S. interest rates and a stronger domestic economy that induced higher imports would forestall dollar appreciation. With a stable dollar, Germany would be able to ease monetary policy while maintaining fiscal restraint. A resurgent German economy would accelerate recovery elsewhere in Europe, especially in France, which is now severely constrained by its trade deficit. Expansion abroad should lessen British concern about the external consequences of domestic stimulus. To strengthen the yen, stimulate the domestic economy, and ward off protectionism, Japan should alter its policy mix toward more fiscal stimulus with continued monetary restraint. In light of concern in Japan about the growth of government, such fiscal stimulus could take the form of tax cuts.

While improved and better coordinated macroeconomic policies would engender a significant economic rebound and boost employment, joblessness is likely to remain historically high. One reason appears to be that real wages, supported by indexation in the 1970s and 1980s, have been unresponsive to slack labor markets, particularly in Europe. Much more flexible wage determination, such as indexing wages to profits through bonuses rather than to inflation, would help reduce wage rigidities and provide incentives for increased productivity growth.

Benefits of lower oil prices

The current rollback in oil prices — resulting from world recession, the momentum of energy conservation, and stepped-up production in many non-OPEC countries — will have a major beneficial impact on the world economy. Just as oil-price increases in the 1970s were deflationary in terms of aggregate spending, price declines will prove expansionary at a time when further stimulus is needed. A $5-per-barrel decline will raise real incomes in the OECD area and could boost OECD real GNP by ½% this year, perhaps by ¾% in the United States. Inflation would diminish by ½% to 1% in the OECD area this year, which should in turn lessen inflationary expectations and bring about lower interest rates, provided policymakers do not misread the evidence of lower inflation as the signal to curtail money supply growth. Thus, even though lower oil prices would hurt some oil producers, both domestic and foreign, the benefits from lower interest rates and higher economic growth are substantially greater to the world at large.

Governments must, however, be sensitive to the financial and economic dislocations that could ensue from erratic oil price movements. The efforts of Saudi Arabia and other Gulf state producers to achieve a lower, but stable oil price clearly would be the best outcome. A plummeting price could deter conservation and would surely derail energy investment. It is essential to preserve the benefits of lower oil prices. To sustain conservation momentum and to lessen the risk of a new oil shock later in the eighties mandates a revision of energy taxes in the industrial countries. Higher consumption-taxes have the added merit of reducing budget deficits, where necessary, or of permitting reduction of other taxes including present levies on energy production.

Need for greater exchange rate stability

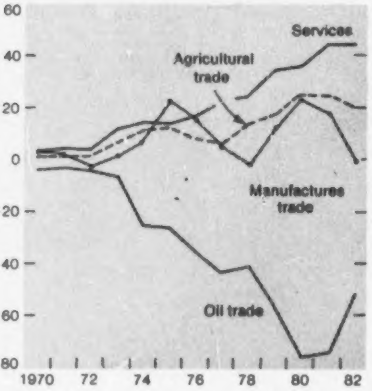
There is also clear need for greater exchange rate stability to foster an improved trade and investment climate and economic growth. Deviations from purchasing power parity on the order of 20% to 50% for the dollar, yen, and sterling over the past couple of years have distorted competitive relationships and led to protectionist pressures. Misaligned exchange rates can have the same harmful effect on trade as do tariff and nontariff barriers.

The goal of exchange rate stability, while widely acknowledged,

Chart 10

U.S. trade in goods and services

in billions of dollars



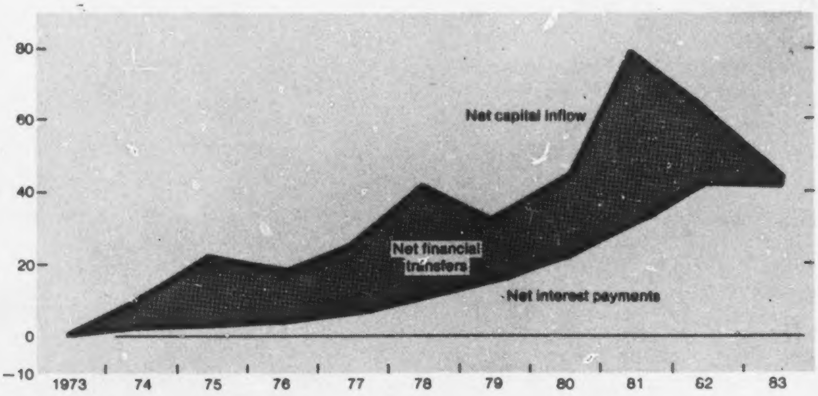
has proved futile in the recent past. The time, however, may have come when efforts to promote greater exchange rate stability can be more fruitful. Inflation for the key reserve-currency countries has returned to levels of the late 1960s and early 1970s, and there is renewed commitment to keep inflation down. The U.S. balance of payments has become much stronger structurally, with the sharp reversal of the rising oil imports in the 1970s and the emergence of large surpluses on agricultural trade and services (see Chart 10). Finally, the huge OPEC disequilibrium, which gave rise to large swings in exchange rates, has now disappeared.

The quest for greater exchange rate stability does not imply a return to fixed exchange rates or the adoption of formal target zones by central banks. Exchange rate flexibility is necessary to cope with shifts in economic policies or fundamental factors, including political or other surprise developments that necessitate balance of payments adjustment. While formal target zones allow some degree of flexibility, such devices are likely to create one-way bets for speculators, such as existed with fixed exchange rates. A more fruitful approach would be for central banks to use movements in the real effective exchange rate as a key indicator for domestic monetary policy. This approach would be well within the spirit of the Versailles summit, where leaders of the major industrial countries agreed to work more closely with the IMF to seek a convergence of economic policies to reduce exchange rate volatility. An objective was to narrow policy differences that resulted in sizable overvaluations or undervaluations of currencies. The recent easing of U.S. monetary policy and unchanged stance in Japan have reduced some of the yen's excessive undervaluation, which is essential to defuse trade frictions.

Chart 11

Net resource transfers to LDCs*

in billions of dollars



*21 Major developing- country borrowers

Managing the LDC debt issue

A speedy solution to the international debt problem is vital, not only for the political and economic well-being of the developing countries but also for the prosperity and security of the industrial countries. The developing countries as a group account for about one-quarter of OECD exports (4% of GNP) and nearly 40% of U.S. exports (3% of GNP); indeed 17% of U.S. exports go to Latin America alone. Balance of payments difficulties have forced large cutbacks in LDC growth to curtail imports and narrow current account deficits. The drop in U.S. exports to the LDCs, which fell at a $14 billion annual rate from the fourth quarter of 1981 to the fourth quarter of 1982, no doubt contributed to the delayed recovery and increased unemployment in the United States, particularly in the latter part of the year. Slack LDC import demand threatens to dampen this year's upturn as well.

Resumption of LDC growth requires that the net flow of resources to the developing countries, which has diminished significantly in the past couple of years (see Chart 11), be increased. There are two ways of restoring such a positive net flow: either reducing net interest payments or increasing official and/or private credit flows. With a floating rate bank debt of about $400 billion, LDCs would save about $4 billion in interest payments for each percentage point drop in interest rates. To increase new lending above all requires restoration of LDC creditworthiness. This can only be accomplished if the developing countries undertake substantial adjustment efforts in the next few years. Our staff has estimated that, together with OECD growth of about 3% per annum in the next few years, such adjustment efforts on the part of the LDCs could restore their ratios of debt to exports to manageable levels over a two-to-three-year period, on average. LDC borrowers would then be able to regain broader access to financial markets and resume their economic growth by the middle of this decade.

In this event developing countries essentially face a medium-term liquidity problem that must be bridged by official institutions and the banks. However, if there is no OECD recovery and if the LDCs fall short in their adjustment efforts, the LDC debt problem will assume much-longer-term solvency aspects.

Some observers are concerned about the limited time LDCs can be expected to accept austerity programs. Political and social tensions could undermine adjustment efforts. Some feel that the present strategy spearheaded by the IMF, the U.S. government, and the banks is insufficient, because it does not alleviate the LDCs' outstanding debt and interest burdens. Various schemes have been proposed to reduce the burdens and to accelerate the net flow of resources to the LDCs and thus their growth. So far, however, no operational method has been found that deals effectively with both the stock and flow aspects of the debt problem. It should be recognized that proposals calling for a portion of LDC debt outstanding to be written off or marked down, or for interest payments to be suspended, would reduce incentives for creditors to extend new loans. This also applies to suggestions that the World Bank or a new international lending agency assist in restructuring short-term LDC debt into longer-term obligations at more favorable interest rates. While this would alleviate LDC cash-flow problems, the incentives for banks to participate depend on the price used to discount LDC loans. The greater the losses banks would be expected to take, the less the incentive for them to participate or lend new money.

Another proposal to reduce the LDC interest burden and improve their cash-flow positions would have private creditors issue loans to the LDCs that index principal payments to some measure of inflation in the industrial countries. Under high or variable inflation, lenders seek to protect the real value of their assets. Variable-interest-rate loans achieve this insofar as nominal interest rates rise in line with inflation. For the borrowers, however, this shifts the overall debt service burden forward. Indexing the principal of the loan, in contrast, augments the outstanding balance by the rate of inflation, while leaving debt service payments unchanged, and, thereby, avoids what essentially amounts to premature amortization. Despite this merit, prevailing tax, accounting, and regulatory considerations discourage the extensive use of indexed instruments, and thus they are unlikely to provide a solution to the current international debt problem.

From the above discussion, it is

clear that write-offs and schemes to stretch out maturities will not, by themselves, restore the needed flow of resources to developing countries. The only viable approach lies in industrial countries' recovery accompanied by stepped-up official financing through the IMF in partnership with commercial bank lending. This requires that the Fund, which by mandate and history occupies the central role in promoting sound economic adjustment and temporary liquidity, be adequately endowed. At present, the vast bulk of its available resources is already committed, with little in reserve to handle projected future needs or contingencies. Accordingly, the proposed nearly 50% quota increase and expanded borrowing arrangement from major countries, which together would add some $30-$35 billion in usable resources, must be approved without delay. Unless the Fund is able to play its central role, private money will not be forthcoming, with dire consequences for world recovery and political stability.

Congressional support for the Fund quota increase is gaining ground, but amendments aimed at forestalling "imprudent" lending, which could imperil new bank lending, may be attached to the legislation. What is needed is a constructive approach that addresses the immediate need to augment resource flows to the developing countries, while at the same time preventing a recurrence of the debt problem once LDC creditworthiness has been restored.

Two issues require urgent attention. The first is the need for better and more timely information on outstanding short-term debt and reserve assets. Reserve drawdowns and rapid buildup of short-term obligations typically precede external debt crises, as, for example, in the cases of Turkey, Mexico, and Brazil. They raise fundamental questions about the quality of existing reserve-asset data, which may include assets of illiquid character, such as receivables, on countries in financial difficulty. Also, the traditional definition of external debt excludes foreign-currency liabilities to domestic residents, which constitute an additional claim on foreign exchange resources. Experience in reschedulings indicates that total foreign-currency liabilities frequently turn out to have been much greater than previously supposed.

Given the significance of these problems, more complete and timely reporting procedures are essential. The proposed private-sector institute on international lending could assist in identifying, collecting, and disseminating relevant debt information. However, the prime responsibility to gather comprehensive and accurate debt statistics rests with the IBRD, IMF, and BIS. They could also assist in formulating guidelines for gauging excessive short-term debt. It is normal for a country to incur short-term, trade-related obligations, but surely not of a magnitude far exceeding half its annual level of imports. For example, Mexico's $23 billion short-term debt as of end-1982 was far in excess of its entire import bill in 1982 of $14 billion.

The second issue entails the need to avoid large, erratic surges of bank lending that result in rapid growth of LDC external debt and increased lending concentrations such as in Argentina and Mexico. The near-quadrupling in bank lending to Argentina since 1978 created little incentive for appropriate adjustment or cooperation with the IMF. The more-than-doubling of bank lending to Mexico over the same period was, in part, based on economic projections that relied on steadily rising oil prices and discounted other considerations.

There are two ways of handling this issue. One is imposition of direct credit controls, applicable either to levels or rates of expansion of international lending. Lending limits might be expressed in relation to bank capital. Such an approach, however, poses enormous problems. First, such limits would be at odds with the philosophical preference for noninterference in commercial judgment and run counter to liberalization of international trade and capital flows in the post-World War II era. Second, establishment of formal country limits would be a highly politicized decision because countries differ in size and other characteristics. Third, enforcement of limits would not, of itself, prevent bad loans to individual countries nor protect against systemic risks affecting all borrowers, such as the present world recession. Finally, it is vital that flexibility be retained to allow for temporary fluctuations in trade financing.

The preferable way to avoid undesirable lending is for banks, on their own, to strengthen prudential rules or guidelines. Better yardsticks for assessing debt servicing capacity — including the identification of threshold levels beyond which repayment difficulties are likely to arise — need to be developed to assist both borrowers and lenders. The IMF is well suited to advise countries in formulating realistic assessments of their external debt capacity. Regular consultation with member countries to discuss appropriate debt levels and buildup as world conditions and policies change would be constructive. Banks, however, must form independent judgments about appropriate lending levels, not only with full appreciation of country creditworthiness, but also in light of their own portfolio balance and capital strength. International lending cannot indefinitely outstrip growth of bank capital.

If international lending is to be conducted on the basis of prudential rules, rather than regulatory controls, the existing examination procedures should ensure that lending decisions are not guided solely by short-run reward but by longer-run risk considerations as well. Such risks not only include that of outright defaults but also extensive delays in repayment on sovereign loans. Even though sovereign borrowers may remain solvent over the long run, continuous and widespread debt rescheduling can impair the liquidity of bank assets, which potentially could undermine confidence — a risk bank managements and bank regulators cannot ignore.

Conclusions

The policy issues we face today are every bit as challenging as those in the 1930s. In the Great Depression governments failed to make sufficient headway in three areas — domestic economic policy, international policy coordination, and international leadership in dealing with global debt problems. While policymakers are confronted with very similar issues today, there is a much greater basis for confidence that speedier progress will be made in these areas and that long-term growth and greater price stability can be restored. Lower oil prices, in particular, will assist in restoring noninflationary growth.

In the United States economic policies have been moving in the right direction. Restrictive monetary policy has contributed to a sharp reduction of inflation and a favorable inflation outlook. Deregulation has curtailed energy use and dependence on imported oil. Both factors have helped to eliminate structural weaknesses in the U.S. balance of payments and chronic dollar problems in the 1970s. There is also growing awareness of the need for greater fiscal restraint to reduce structural deficits and prevent new interest rate escalation.

There has also been headway on international economic policy issues. A strategy already is in place so that the global debt problem can be resolved through OECD economic recovery and LDC adjustment efforts. While protectionism is still a threat, governments, especially the Reagan Administration, are resisting pressures to close domestic markets. Moreover, some of the groundwork for enhanced exchange rate stability has been laid with the narrowing of inflation differentials in the key reserve centers and the disappearance of the OPEC surplus. Greater convergence of economic policies holds the key to a reduction of exchange rate volatility and misalignment.

Nevertheless, the economic, political, and financial dangers cannot be underestimated, particularly in light of unforeseen adverse developments or shocks that could quickly upset improving trends or existing strategies. Governments must be prepared to respond quickly to inevitable surprises, economic or political. Leadership from the United States is essential if the institutional framework for handling international economic problems is to be strengthened. The Bretton Woods institutions, which played an important role in post-World War II reconstruction and prosperity, must have adequate resources to upgrade and expand their role in balance of payments adjustment and financing and in external debt management. Certainly, one of the principal lessons from the Great Depression is that lack of leadership on the part of the United States and other industrial countries carries the risk of international economic disintegration and increased political instability.

Statistical appendix

for key to data in tables see pages 22 and 23.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Effective exchange rates

Index numbers, March 1973=100. The index of the effective exchange rate for a currency is a measure of that currency's trade-weighted average appreciation or depreciation vis-à-vis the currencies of 15 other major countries. The exchange rates used in the construction of this index are the averages of daily noon spot exchange rates in New York for months and for weeks ending on dates shown. The trade weights used are based on 1976 bilateral trade in manufactures.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
pre-June 1970 parities	118.5	94.9	79.3	116.2	91.6	97.5	110.9	95.9	98.2	88.3	97.8	97.9	98.1	102.2	92.2	98.4
Smithsonian central rates	107.0	101.3	88.7	116.0	95.4	96.1	108.3	97.0	99.1	91.6	98.0	96.0	96.3	100.5	91.7	98.1
1982																
March	114.1	83.3	115.6	78.0	139.1	81.9	45.6	95.8	120.6	190.0	122.4	83.1	109.6	81.9	80.1	61.9
April	115.2	83.2	115.0	77.5	140.4	81.6	45.2	95.1	120.3	185.0	123.1	82.9	110.0	81.8	80.3	61.8
May	113.6	82.3	117.2	77.4	141.6	82.3	45.2	95.7	120.7	180.9	123.8	84.1	109.2	81.4	79.3	62.1
June	118.8	80.2	112.9	78.5	142.0	78.9	45.0	95.4	121.6	178.1	123.8	82.5	110.1	81.9	80.2	61.4
July	119.9	80.7	112.1	78.8	142.6	76.8	45.1	95.6	122.0	179.7	124.1	82.0	108.8	82.0	79.3	61.1
August	119.8	82.5	110.9	78.9	142.8	76.5	45.0	95.3	122.8	179.6	124.3	81.7	104.2	82.7	77.3	61.2
September	120.4	83.3	109.7	79.2	143.2	75.8	45.0	94.8	123.6	179.1	124.6	81.3	102.0	82.6	76.4	61.4
October	121.9	83.9	107.2	80.0	144.4	76.0	44.7	94.5	124.9	179.5	124.2	83.5	102.2	73.0	76.5	61.1
November	121.9	84.3	110.9	77.6	144.8	76.3	44.2	94.6	125.3	180.0	125.9	84.7	103.1	70.3	76.6	59.6
December	118.7	83.0	119.5	74.1	147.3	77.5	44.7	94.9	125.7	184.5	127.1	86.2	102.7	69.3	76.0	54.2
1983																
January	117.1	83.5	123.7	71.4	147.5	77.6	45.0	95.1	126.4	191.4	127.0	86.8	101.9	69.2	76.3	53.4
February	118.3	83.8	122.9	70.3	147.6	77.7	44.9	95.1	126.3	189.7	127.1	86.5	102.6	69.3	76.0	52.9
January 7	116.1	83.3	124.7	72.5	148.1	77.8	45.0	95.0	126.0	189.1	127.2	86.7	101.4	69.0	75.8	53.5
14	115.9	83.8	124.9	70.6	148.0	77.9	45.3	95.2	126.6	192.6	127.4	87.2	101.5	69.1	76.2	53.4
21	117.2	83.8	123.4	71.5	146.9	77.4	45.1	95.4	126.5	192.3	127.1	86.6	102.3	69.3	76.5	53.4
28	118.5	83.5	122.5	70.6	147.1	77.5	44.8	95.1	126.6	192.0	126.7	86.6	102.2	69.4	76.7	53.1
February 4	119.6	83.5	121.4	70.5	146.6	77.2	44.9	95.2	126.4	191.6	126.8	86.6	102.7	69.5	76.8	53.1
11	118.2	84.0	122.7	70.6	147.5	77.6	44.9	95.0	126.2	189.8	127.0	86.6	102.7	69.3	76.2	53.1
18	117.5	84.0	123.8	70.3	148.0	77.8	45.0	95.1	126.3	190.2	127.1	86.5	102.5	69.1	75.8	52.8
25	118.1	83.8	123.7	69.8	148.1	77.9	45.0	95.0	126.3	188.3	127.4	86.3	102.3	69.3	75.6	52.6

Real effective exchange rates

Index numbers, March 1973=100. The index of the real effective exchange rate is the index of the effective exchange rate adjusted for inflation differentials which are measured by wholesale prices of nonfood manufactures. Exchange rates and trade weights used in the construction of this index are the same as those used for effective exchange rate indices. Annual figures are averages of months.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
1979	96.3	92.1	95.7	118.4	103.9	98.9	93.0	95.8	100.3	116.8	107.6	100.7	92.6	99.0	88.2	109.0
1980	97.9	91.3	93.4	137.8	100.6	100.6	95.9	90.4	98.4	106.5	108.2	93.3	94.8	100.4	89.6	103.1
1981	108.6	91.4	94.2	140.5	96.2	98.7	91.0	84.5	96.0	105.4	105.9	89.0	99.0	101.1	98.8	97.5
1982	117.3	91.7	83.4	134.8	99.1	96.4	89.7	77.0	100.5	109.0	106.9	86.6	100.0	95.0	101.3	97.1
1982																
March	114.3	92.3	85.6	135.2	97.7	98.2	89.9	77.0	99.8	113.8	107.2	85.7	102.7	98.0	101.3	97.8
April	114.6	93.0	85.0	134.3	98.1	98.7	89.3	76.6	99.3	110.8	107.5	86.0	103.6	98.0	101.9	98.2
May	112.6	92.0	86.3	133.9	98.7	100.4	89.4	77.5	99.8	108.4	107.6	86.6	103.2	97.5	101.2	99.5
June	118.5	89.3	82.4	135.8	99.2	96.1	88.7	77.1	100.6	107.0	107.2	86.1	102.9	97.6	102.8	98.9
July	120.3	89.3	81.2	136.5	99.4	94.0	89.1	77.0	100.5	107.2	107.4	85.7	101.6	98.1	102.4	99.0
August	120.3	90.8	80.3	136.7	99.5	93.0	89.5	77.0	100.8	107.2	107.2	85.9	97.5	99.0	100.8	99.6
September	119.5	93.0	79.6	137.6	99.9	92.3	89.8	76.4	101.2	107.0	107.0	85.7	96.2	98.8	100.3	99.7
October	122.5	92.2	77.0	138.7	100.1	93.3	89.1	75.9	101.5	107.1	107.2	88.2	96.2	90.0	100.2	99.3
November	122.7	92.2	79.6	134.8	100.0	94.3	89.2	75.7	101.4	107.1	107.3	88.7	97.1	88.0	100.3	96.7
December	119.2	90.9	85.3	129.8	101.3	96.4	90.2	75.4	101.8	109.1	108.5	89.4	96.7	87.5	100.8	89.6
1983																
January	116.4	92.1	88.7	124.9	101.5	97.0	91.3	75.6	101.8	112.4	107.9	90.8	96.3	89.1	101.9	87.7
February	118.4	91.6	87.5	123.6	101.2	97.3	91.5	75.3	101.2	111.2	107.7	89.4	97.1	90.5	101.7	87.0

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, and Singapore
billions of dollars (rounded to nearest $5 billion), at end of period

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	
										Jun	Sep
Estimated size											
Gross	315	395	485	595	740	950	1 235	1 525	1 860	1 915	2 015
Liabilities to nonbanks	55	80	90	115	145	190	260	345	440	465	475
Liabilities to central banks	40	60	65	80	100	115	145	150	130	110	105
Liabilities to other banks[a]	220	255	330	400	495	645	830	1 030	1 290	1 340	1 435
Net	160	220	255	320	390	495	590	730	890	910	940
Claims on nonbanks	70	105	130	165	210	265	330	425	530	550	575
Claims on central banks and on banks outside market area[b]	70	95	105	130	150	185	200	230	275	270	275
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	20	25	30	45	60	75	85	90	90
Eurodollars as % of gross liabilities in all Eurocurrencies	74	76	78	80	76	74	72	75	78	80	81

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1979	1980	1981	1982							1983
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Eurodollar:											
overnight	14.00	19.25	12.87	14.88	11.50	9.00	10.50	9.50	8.88	9.25	8.63
7-day fixed	14.00	19.75	13.00	15.38	11.75	9.25	10.50	9.50	9.00	9.25	8.75
one month	14.37	19.12	13.31	15.44	12.13	10.94	11.00	9.62	9.38	9.13	9.00
three months	14.44	17.55	13.75	15.81	13.06	11.88	11.44	10.00	9.88	9.19	9.25
six months	14.44	16.37	14.81	16.00	13.38	12.44	11.94	10.19	10.13	9.50	9.56
twelve months	12.87	14.87	14.75	16.00	14.06	12.87	12.19	10.50	10.38	9.63	9.75
Euromark:											
one month	8.50	8.87	10.44	8.87	8.87	8.12	7.62	7.00	7.19	5.88	5.63
three months	8.56	8.87	10.50	9.00	8.87	8.19	7.75	7.00	7.06	5.88	5.63
six months	8.56	8.87	10.56	9.12	9.12	8.44	7.94	7.00	7.06	5.94	5.69
twelve months	8.12	8.93	10.25	9.25	9.12	8.44	7.94	6.94	7.00	6.00	5.88
Euro-Swiss franc:											
one month	5.19	6.00	8.87	4.37	3.25	3.25	3.81	3.00	3.94	2.81	2.38
three months	5.75	6.00	9.25	5.06	4.25	4.00	4.37	3.56	4.06	3.25	2.75
six months	5.87	5.75	9.25	5.94	5.12	4.88	4.81	4.12	4.06	3.44	3.38
twelve months	5.56	5.50	8.50	6.00	5.12	4.94	4.81	4.19	4.19	3.44	3.56
Eurosterling:											
one month	16.75	14.75	15.37	13.00	11.88	11.00	10.88	9.88	10.44	10.56	11.50
three months	16.75	14.75	15.69	13.06	11.81	10.81	10.50	9.44	10.44	10.44	11.50
six months	16.75	14.25	15.69	13.06	11.81	10.81	10.50	9.44	10.38	10.31	11.44
twelve months	15.25	14.00	15.37	13.13	11.94	10.81	10.50	9.44	10.31	10.31	11.25
Euro-French franc:											
one month	13.87	11.12	15.75	15.50	14.75	21.00	16.25	20.00	19.50	23.00	16.00
three months	14.00	11.75	17.00	16.75	16.00	23.75	18.00	20.00	19.75	24.00	20.00
six months	14.12	12.25	18.00	18.00	17.37	22.75	19.00	20.00	20.38	22.00	20.00
twelve months	13.75	12.87	18.25	18.63	18.00	21.00	19.25	19.00	20.00	19.75	18.00
Euroyen:											
one month	7.32	9.12	6.12	7.25	6.69	7.06	7.00	6.75	7.31	6.75	6.56
three months	8.31	9.25	6.12	7.25	7.12	7.31	7.25	6.88	7.25	6.75	6.56
six months	8.62	9.62	6.87	7.31	7.38	7.44	7.50	6.94	7.19	6.81	6.50
twelve months	7.94	9.37	6.87	7.25	7.12	7.44	7.56	7.00	7.19	6.81	6.63

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	1981	1982	1982	1983		Jan-Feb	
				Dec[r]	Jan[r]	Feb[p]	1983	1982
Industrial countries	**39 100**	**86 022**	**42 532**	**1 687**	**2 684**	**2 673**	**5 357**	**7 705**
Australia	2 475	1 680	4 721	275	—	500	500	2 202
Canada	1 743	4 112	3 838	60	—	—	—	1 750
Denmark	1 720	1 661	789	19	1 300	—	1 300	452
France	1 745	3 912	5 653	63	—	300	300	—
Greece	1 333	1 039	770	—	20	—	20	—
Ireland	237	1 361	401	—	—	41	41	—
Italy	6 268	6 030	3 457	153	122	66	188	550
Norway	685	713	2 069	100	—	—	—	27
Portugal	745	1 590	1 388	150	—	—	—	151
Spain	5 457	3 242	1 806	194	101	691	792	312
Sweden	1 370	1 867	649	50	—	1 000	1 000	—
United Kingdom	1 470	747	1 635	—	39	—	39	364
United States	6 719	54 764	6 566	470	552	40	592	1 064
Other[a]	7 133	3 284	8 790	153	550	35	585	833
Developing countries	**35 054**	**45 239**	**40 781**	**2 407**	**7 406**	**6 413**	**13 819**	**7 880**
Non-OPEC countries	24 009	33 369	28 276	2 147	6 089	5 645	11 734	5 641
Argentina	2 506	2 534	1 565	1 100	—	—	—	195
Brazil	4 158	5 751	5 716	316	45	4 400	4 445	980
Chile	1 322	2 204	1 194	—	—	—	—	204
Colombia	608	1 005	227	70	—	—	—	7
Korea	1 917	2 824	2 923	123	220	595	815	452
Malaysia	—	1 725	1 909	72	60	—	60	130
Mexico	5 971	7 530	7 953	15	5 000	—	5 000	2 635
Peru	408	1 407	1 069	—	16	—	16	19
Philippines	1 056	1 257	635	55	300	33	333	137
Taiwan	314	928	255	—	100	100	200	—
Other	5 677	6 204	4 830	396	348	517	865	882
OPEC countries	11 045	11 870	12 505	260	1 317	768	2 085	2 239
Ecuador	1 209	934	815	—	—	—	—	220
Indonesia	1 435	725	1 035	59	1 000	45	1 045	—
Nigeria	1 330	1 802	2 042	52	—	33	33	160
United Arab Emirates	101	363	93	—	—	690	690	—
Venezuela	6 715	7 559	6 799	20	237	—	237	1 734
Other	255	497	1 721	129	80	—	80	125
Communist countries	**2 809**	**1 791**	**765**	**83**	—	**200**	**200**	**80**
China	181	370	43	33	—	—	—	—
East Germany	303	470	8	—	—	—	—	—
Hungary	550	550	340	50	—	200	200	—
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	—	—	—	—	80
International organizations[c]	**429**	**302**	**150**	—	—	**21**	**21**	**150**
TOTAL	**77 392**	**133 354**	**84 228**	**4 177**	**10 090**	**9 307**	**19 397**	**15 815**

[a] includes multinational organizations

[b] includes COMECON institutions

[c] includes regional development organizations

[p] preliminary

[r] revised

International bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982							1983
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
U.S companies:											
U.S. dollar	10.13	11.76	12.70	13.41	13.33	13.04	12.92	11.63	11.32	11.28	10.46
Swiss franc	6.61	7.27	7.30	6.42	6.32	6.12	5.94	5.74	5.74	5.76	5.63
European companies:											
U.S. dollar	10.93	12.42	14.29	14.12	14.15	13.81	13.73	12.81	12.37	12.45	11.60
German mark	7.55	8.79	9.36	8.35	8.28	8.32	8.24	8.23	8.31	8.17	8.15
Governments:											
U.S. dollar	10.66	11.83	13.59	13.77	13.78	13.41	13.30	12.62	12.00	12.51	12.07

New international bond issues*

new issues in period, in millions of dollars

	1980	1981	1982	1982	1983		Jan-Feb	
				Dec	Janr	Febp	1983	1982
By type:								
Eurobonds, total	**23 970**	**31 616**	**49 839**	**1 838**	**6 819**	**2 426**	**9 245**	**9 911**
by category of borrower								
U.S. companies	4 107	6 178	12 596	41	853	100	953	2 561
Foreign companies	9 032	12 882	13 231	597	1 474	1 090	2 564	2 585
State enterprises	5 839	7 496	13 529	488	2 258	864	3 122	2 572
Governments	3 045	2 629	7 107	512	1 829	325	2 154	1 552
International organizations	1 947	2 431	3 376	200	405	47	452	641
by currency of denomination								
U.S. dollar	16 427	26 830	42 930	1 697	5 703	1 743	7 446	8 776
German mark	3 607	1 277	2 487	103	560	352	912	393
Dutch guilder	1 043	529	645	—	113	74	187	68
Canadian dollar	279	634	1 181	—	85	41	126	421
European composite units	65	309	1 301	38	344	216	560	72
Other	2 549	2 037	1 295	—	14	—	14	181
Foreign bonds outside the United States, total	**14 521**	**13 817**	**19 879**	**689**	**3 009**	**1 974**	**4 983**	**4 162**
by category of borrower								
U.S. companies	307	592	1 971	98	102	23	125	257
Foreign companies	3 157	3 384	4 184	171	1 253	658	1 911	892
State enterprises	2 830	3 701	5 429	190	419	531	950	1 059
Governments	4 086	2 762	3 494	49	281	445	726	937
International organizations	4 141	3 378	4 801	181	954	317	1 271	1 017
by currency of denomination								
German mark	4 839	1 310	2 745	—	626	49	675	693
Swiss franc	7 617	8 285	11 129	367	2 014	1 347	3 361	2 502
Dutch guilder	259	481	957	38	37	131	168	178
Japanese yen	1 088	2 457	3 418	187	218	442	660	707
Other	718	1 284	1 630	97	114	5	119	82
Foreign bonds in the United States, total	**3 429**	**7 552**	**6 096**	—	**39**	**275**	**314**	**778**
by category of borrower								
Canadian entities	2 136	4 630	3 330	—	9	275	284	750
International organizations	550	1 375	1 700	—	—	—	—	—
Other	743	1 547	1 066	—	30	—	30	28
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**61 142**	**2 006**	**8 438**	**4 294**	**12 732**	**12 082**
Australia	539	991	2 167	21	257	75	332	280
Austria	1 859	1 557	1 668	—	70	86	156	537
Canada	3 797	10 648	11 909	49	575	510	1 085	2 794
Denmark	1 125	695	1 019	—	292	138	430	287
Finland	392	672	815	—	156	—	156	87
France	2 820	3 156	7 393	308	1 850	766	2 616	1 293
Italy	904	1 108	1 746	—	150	62	212	409
Japan	5 309	6 928	8 213	466	1 788	1 089	2 877	1 708
Netherlands	1 585	630	865	—	56	37	93	59
New Zealand	293	1 107	1 375	300	—	183	183	85
Norway	892	530	832	—	24	174	198	52
Sweden	3 244	2 050	2 729	462	1 381	212	1 593	965
United Kingdom	1 733	1 408	1 281	100	55	68	123	46
United States	5 587	6 770	14 567	139	955	123	1 078	2 818
Developing countries	**2 485**	**4 769**	**4 930**	**140**	**70**	**17**	**87**	**1 066**
Non-OPEC countries	1 942	4 338	3 890	90	70	17	87	1 066
Brazil	349	60	91	—	—	—	—	—
Korea	68	323	172	20	70	—	70	50
Mexico	544	3 012	1 919	—	—	—	—	773
OPEC countries	543	431	1 040	50	—	—	—	—
Venezuela	398	291	385	—	—	—	—	—
Communist countries	**65**	**75**	**65**	—	—	—	—	**45**
International organizations	**6 638**	**7 163**	**9 677**	**381**	**1 359**	**364**	**1 723**	**1 658**
TOTAL	**41 920**	**52 985**	**75 814**	**2 527**	**9 867**	**4 675**	**14 542**	**14 851**

*Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.

Central bank discount rates

	1979	1980	1981	1982				Current	
	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	end Dec	Mar 1 1983	effective since
United States	12.00	13 00	12.00	12.00	12.00	10.00	8.50	8.50	Dec 15. 82
Canada	14.00	17.36	14.66	15.11	13.58	12.98	10.26	9.48	Feb 25. 83
Japan	6.25	7.25	5.50	5.50	5.50	5 50	5.50	5.50	Dec 11, 81
United Kingdom	17.00	14.00	14.37	13.00	12.50	10.00	10.00	11.00	Jan 12, 83
Belgium	10.50	12.00	15.00	13.00	14.00	12 50	11.50	11.50	Nov 12, 82
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	6.00	7.50	7.50	7.50	7.50	7.00	5.00	5.00	Dec 3, 82
Italy	15.00	16.50	19.00	19.00	19.00	18.00	18.00	18.00	Aug 25. 82
Netherlands	9.50	8.00	9.00	8.00	8.00	7.00	5.00	4.00	Mar 1. 83
Austria	3.75	6.75	6.75	6.75	6.75	6 25	4.75	4.75	Dec 3. 82
Denmark	11.00	11.00	11.00	11.00	11.00	11.00	10.00	10.00	Nov 29. 82
Finland	8.50	9.25	9.25	9.25	8.50	8.50	8.50	8.50	Jun 1. 82
Ireland	16.40	12.75	17.15	18.30	18.30	14 35	14.35	14.35	Dec 23, 82
Norway	9.00	9 00	9.00	9.00	9.00	9.00	9.00	9.00	Nov 30. 79
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26. 77
Sweden	9.00	12.00	11.00	10.00	10.00	10.00	10.00	9.00	Jan 21, 83
Switzerland	2.00	3.00	6.00	5.50	5.50	5.00	4.50	4.50	Dec 3, 82
Argentina	89.90	87.01	98.50	99.87	87.23	128.54	128.54	128 54	Sep 30. 82
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29. 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4 00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19. 82
South Africa	7.00	7.00	13.50	13.50	13 50	13.50	13.50	13.50	Dec 15. 81
Venezuela	11.00	13.00	14.00	14 00	14 00	14.00	13.00	13.00	Sep 30, 82

Day-to-day money rates

monthly averages

	1979	1980	1981	1982							1983
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	13.78	18.90	12.37	14.15	12.59	10.12	10.31	9.71	9.20	8.95	8.68
Canada	13.83	15.61	14.53	15.55	16.16	15.03	13.58	12.10	10.91	10.63	9.75
Japan	8.02	9.49	6.70	7.19	7.19	7.18	6.99	6.92	6.68	6.92	6.64
Australia	7.84	9.51	12.84	15.01	13 39	15.09	13.23	13.27	12.52	11.04	9.84
United Kingdom	14.87	13.00	9.13	8.31	10.10	9.75	9 80	8.56	8.33	6.70	10.81
Belgium	10.65	9.68	12.78	11.68	13.13	11.76	10.52	11.13	10.51	9.43	9.80
France	12.17	10.87	15.46	15.98	15.05	14 58	14.11	13.91	13.18	12.88	12.71
Germany	9.15	9.13	10.65	9.00	9.03	8.74	7.96	7 48	7.02	6.07	5.80
Italy	16.00	17.50	20.63	20.41	20.13	19.69	18.63	18.63	18.86	19.00	19.00
Netherlands	15.67	8.37	10.67	7 63	8.94	8.63	7.33	7.23	6.13	5.31	5.10
Austria	8 50	11.50	7.50	9.62	10.50	9.25	7.75	6.25	6 38	6.00	5.88
Finland	13.53	12.50	11.30	11.50	11.50	11.50	11.45	11.70	11.50	11.50	11.00
Ireland	16.88	13.31	16.88	18.94	18.25	15.62	16.00	13.13	15.50	14.54	15.38
Spain	9.61	16.74	18.73	22.34	17.29	13.96	13.78	20.54	23.18	20.30	16.60
Sweden	11.99	11.41	13.82	14.65	14.98	14.47	15.22	13.30	12.51	8.63	4.62
Switzerland	1.25	5.75	3.38	1.50	1.50	1.50	2.25	1.87	1.38	1.25	1.38
Argentina	78.22	70.84	84.93	74.82	80.72	101.34	127.09	135.66	132.70	155.32	154.38
Brazil	37.51	62.71	103.74	99.86	104 43	130.32	108 40	125.22	136.85	150.42	119.23
Hong Kong	14.19	14.05	10.75	13.50	11.75	8.25	9.37	11.05	11.13	9.13	7.13
Korea	15.00	14.82	14.40	13.35	13.39	13.23	13.39	13.58	13.75	13.84	13.25
Philippines	16.25	15.70	14.70	11.37	8.20	10.56	12.68	13.01	10.90	16.12	n.a.
Singapore	10.17	10.23	3.96	6.39	6.44	7.56	5.67	6.16	5.34	11.45	n.a.
South Africa	3.81	5.60	12.34	14.62	14.94	14.72	14.85	14.45	13.50	12.90	9.70
Eurodollars	14.41	19.22	12.29	14.13	12.57	10.10	10.52	9.88	9.40	9.15	8.72

Treasury bill rates

bond-equivalent yields, at or near end of month

	1979	*1980*	*1981*	*1982*							*1983*
	Dec	*Dec*	*Dec*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*Jan*
United States	12.39	14.87	11.90	13.15	10.63	8.01	7.64	8.13	8.10	8.15	8.23
Canada	13.66	17.01	14.41	16.33	15.25	13.70	12.73	11.21	10.72	9.80	9.58
Japan	5.68	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	9.31	12.17	13.27	15.47	14.61	14.43	11.62	13.72	12.98	9.39	11.05
United Kingdom	16.45	13.45	15.31	12.70	11.58	10.26	9.99	9.40	10.12	9.96	10.58
Belgium	14.40	12.75	16.00	15.75	14.50	13.75	12.75	12.75	12.25	12.25	12.25
Ireland	16.37	12.84	17.35	18.05	16.76	14.64	14.48	12.74	12.87	14.70	15.38
Italy	15.62	16.87	21.36	19.25	19.27	19.01	17.67	18.05	19.09	19.11	19.09
Netherlands	12.75	8.00	9.75	8.19	8.75	7.38	7.00	6.50	5.88	5.63	5.38
Spain	15.00	17.20	15.83	16.57	16.49	15.53	15.15	16.79	17.38	16.96	17.06
Sweden	9.74	12.87	9.20	9.22	10.25	10.25	10.26	10.26	9.20	8.18	7.14
Argentina	71.04	66.19	77.10	53.46	108.31	133.36	133.36	133.36	133.36	133.36	110.39
Brazil	31.68	110.60	110.21	112.91	122.71	131.87	135.53	132.91	132.91	n.a.	n.a.
Korea	19.53	16.35	16.00	14.40	14.40	14.40	14.40	8.00	8.00	8.00	8.00
Mexico	17.89	27.73	33.22	51.30	53.01	55.88	49.72	43.02	n.a.	n.a.	n.a.
New Zealand	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
Philippines	12.63	12.74	13.40	14.75	14.87	14.18	14.30	14.32	14.48	14.53	n.a.
Singapore	6.18	6.77	3.03	3.93	3.62	3.30	3.09	2.96	3.07	2.74	n.a.
South Africa	4.30	6.31	14.55	17.06	17.12	16.91	16.12	16.06	15.12	14.62	12.70

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1979	*1980*	*1981*	*1982*							*1983*
	Dec	*Dec*	*Dec*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*Jan*
United States	13.70	17.62	12.78	15.19	11.98	9.61	10.26	8.68	8.68	8.81	8.29
Canada	14.15	17.50	15.25	17.20	15.70	14.20	12.95	11.65	11.00	9.95	10.00
Japan	8.01	9.80	6.30	7.19	7.02	7.22	7.05	6.89	7.06	6.80	6.54
Australia	10.30	13.00	16.00	19.10	16.95	17.00	14.10	15.50	13.80	10.65	11.30
United Kingdom	17.00	14.75	15.69	13.00	11.94	10.75	10.56	9.56	10.38	10.50	11.56
Belgium	14.45	13.10	16.00	15.75	14.75	13.90	13.00	12.85	12.50	12.35	12.35
France	12.62	11.56	15.25	14.87	14.87	14.38	13.81	13.06	12.94	12.75	12.63
Germany	8.70	10.20	10.50	9.40	9.30	8.30	8.00	7.33	7.25	6.20	5.90
Ireland	18.12	13.63	18.50	19.88	17.50	15.62	15.38	13.69	13.63	15.75	16.13
Italy	17.12	17.37	21.00	20.38	20.00	18.75	18.50	18.50	18.30	19.00	18.88
Netherlands	13.00	9.37	11.00	8.87	9.12	8.13	8.00	6.38	6.75	5.25	5.00
Spain	13.20	17.40	15.52	18.02	17.32	15.13	13.91	17.30	19.27	16.55	16.53
Switzerland	6.12	7.50	10.12	5.12	4.37	4.00	4.62	3.75	4.25	2.88	2.88
Hong Kong	14.37	17.69	14.18	14.25	12.75	10.75	10.00	11.00	11.25	10.13	8.75
Korea	19.53	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	16.00	14.25	16.05	17.25	17.25	17.50	17.75	18.00	17.25	16.75	16.25
Philippines	10.41	15.01	17.61	17.03	17.06	16.69	16.50	15.89	16.00	15.91	n.a.
Singapore	10.12	14.12	7.81	9.12	8.19	8.31	7.69	7.69	7.31	8.69	n.a.
South Africa	4.72	7.12	15.47	17.92	18.19	17.59	17.10	17.21	15.75	15.26	13.33

Commercial bank deposit rates

at or near end of month

	1979	1980	1981	1982							1983
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	13.55	16.25	12.62	14.25	11.00	10.10	9.75	9.15	8.70	8.25	8.50
Canada	14.05	17.00	15.20	17.10	15.60	14.05	12.85	11.60	10.95	9.85	9.90
Japan	8.37	9.00	6.50	7.24	7.20	7.35	7.30	7.27	7.15	7.00	6.80
Australia	10.25	12.71	15.65	18.25	16.64	17.51	14.69	14.96	14.56	10.20	10.80
United Kingdom	16.81	14.87	15.69	13.00	11.81	10.63	10.81	9.50	10.44	10.31	11.63
Belgium	14.50	12.63	15.50	15.12	14.38	13.13	12.75	12.50	12.25	12.25	12.25
France	12.50	11.25	9.16	9.40	8.97	8.75	8.53	8.43	8.19	8.24	8.24
Germany	7.75	8.00	9.50	8.50	8.25	7.00	7.00	6.60	6.50	6.00	5.25
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	13.50	9.50	11.00	8.75	8.87	8.13	7.88	6.38	6.75	5.38	5.00
Austria	8.50	11.25	9.63	8.50	8.50	8.63	8.25	7.75	7.13	6.25	6.00
Denmark	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	9.00	9.00	9.00
Finland	4.25	5.00	5.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Ireland	17.87	13.63	18.38	19.50	17.37	15.50	15.25	13.63	13.50	15.25	16.00
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	4.50	11.78	12.06	12.02	12.44	12.33	13.04	13.03	12.53	n.a.
Sweden	8.75	9.75	10.25	9.50	9.50	9.50	9.50	9.50	9.50	9.50	8.50
Switzerland	4.75	7.50	8.75	5.25	3.50	3.50	3.25	3.00	3.00	3.00	2.00
Argentina	72.64	72.00	86.76	85.89	60.83	60.83	85.16	85.16	103.42	103.42	127.75
Brazil	55.55	96.49	110.05	109.15	113.90	99.00	103.18	107.53	122.51	118.26	116.21
Hong Kong	9.25	13.00	12.50	11.50	11.00	9.00	9.00	9.00	8.50	7.50	7.50
Korea	15.00	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	16.75	26.15	31.81	48.05	50.60	53.29	49.75	45.32	n.a.	n.a.	n.a.
New Zealand	15.90	13.50	15.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50	15.25
Philippines	10.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	10.31	13.19	7.50	9.00	7.75	8.00	7.31	7.00	7.00	8.25	n.a.
South Africa	4.82	7.87	14.75	17.75	17.87	17.17	16.50	16.53	15.18	15.25	13.43
Venezuela	15.00	16.00	14.75	15.50	16.00	15.50	14.50	15.00	15.00	15.50	n.a.

Commercial bank lending rates to prime borrowers

at or near end of month

	1979	1980	1981	1982							1983
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	15.25	21.50	15.75	16.50	15.50	13.50	13.00	12.00	11.50	11.50	11.00
Canada	15.00	18.25	16.50	18.25	17.25	15.50	15.00	13.75	13.00	12.50	12.00
Japan	6.51	8.16	6.95	6.34	6.33	6.32	6.31	6.31	6.29	6.30	6.30
Australia	10.75	13.50	15.75	17.50	17.50	17.50	17.00	16.50	16.50	15.00	14.00
United Kingdom	18.00	15.00	14.50	12.50	12.00	10.50	10.00	9.50	10.00	10.00	11.00
Belgium	15.25	15.75	18.00	17.50	17.50	16.75	16.00	16.00	15.50	15.50	15.50
France	12.50	12.25	14.00	14.00	13.75	13.25	13.25	12.75	12.75	12.25	12.25
Germany	9.75	11.50	13.00	11.50	11.50	11.50	10.50	10.50	10.00	8.75	8.75
Italy	19.50	20.50	22.50	21.75	21.75	20.75	20.75	20.75	20.75	20.75	20.75
Netherlands	15.00	10.75	12.00	9.75	10.00	8.75	8.75	8.00	7.25	6.25	6.25
Austria	8.50	12.50	13.50	12.25	12.25	12.25	11.50	11.50	11.75	11.75	11.00
Denmark	13.75	13.75	15.00	15.00	15.50	15.50	15.50	15.50	14.00	14.00	14.00
Finland	9.06	9.83	9.84	9.06	9.04	8.99	8.97	8.97	8.95	n.a.	n.a.
Ireland	16.00	14.50	17.25	19.25	19.25	16.50	16.50	16.50	16.50	16.50	16.50
Norway	11.00	12.50	13.75	14.00	14.00	14.00	14.00	14.00	14.50	14.50	14.50
Spain	9.00	18.50	17.04	18.96	19.50	17.82	16.04	18.35	20.39	19.00	18.34
Sweden	10.75	11.75	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	11.50
Switzerland	5.00	5.75	8.00	7.00	7.00	6.50	6.50	6.50	6.50	6.00	6.00
Argentina	80.00	77.00	92.60	89.00	73.00	73.00	97.33	97.33	109.50	109.50	139.92
Brazil	59.60	96.45	138.09	141.04	143.19	151.80	151.80	151.80	162.30	166.49	162.56
Hong Kong	14.50	17.00	16.00	15.00	14.00	12.00	12.00	12.00	11.00	10.50	10.50
Korea	18.50	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	19.00	24.25	31.81	39.59	43.23	46.42	47.88	45.99	45.51	n.a.	n.a.
New Zealand	11.75	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	16.00	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	9.50	13.60	11.83	10.98	10.70	10.25	10.03	9.75	9.33	9.33	n.a.
South Africa	9.50	9.50	17.00	20.00	20.00	20.00	20.00	20.00	18.00	18.00	17.00
Venezuela	13.00	15.00	15.50	16.50	17.00	16.50	16.00	16.50	16.50	17.00	n.a.

Domestic government bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982							1983
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	10.20	11.46	14.33	14.14	13.68	12.46	11.50	10.79	10.74	10.61	10.98
Canada	11.32	12.69	15.27	16.03	15.62	13.96	13.48	12.63	12.18	11.69	12.28
Japan	8.63	9.04	8.32	8.64	8.49	8.41	8.46	8.50	8.32	7.76	7.89
Australia	10.08	13.00	15.00	16.50	16.50	16.25	14.50	14.25	14.40	13.00	12.75
United Kingdom	13.83	13.05	15.02	13.08	13.05	11.20	10.74	10.04	10.95	10.62	11.56
Belgium	11.13	13.04	13.99	13.59	13.13	13.13	13.20	13.23	12.87	12.66	12.48
France	12.59	14.31	16.44	15.98	15.96	15.78	15.76	15.81	15.79	15.40	14.99
Germany	7.91	9.19	9.71	9.33	9.14	8.79	8.00	8.27	8.19	7.90	7.92
Italy	14.00	16.23	21.39	20.78	20.77	20.11	19.18	19.38	19.90	19.62	19.33
Netherlands	9.29	10.48	11.28	10.53	10.50	10.24	10.00	9.26	8.92	8.16	8.24
Austria	8.20	9.62	10.37	10.01	10.01	10.04	9.59	9.24	8.99	8.81	n.a.
Denmark	18.28	19.98	20.91	22.78	22.29	22.72	22.83	21.16	20.81	20.14	n.a.
Finland	9.58	10.42	10.98	10.84	10.74	10.59	10.64	10.62	10.56	10.54	10.58
Ireland	16.64	15.63	18.28	18.58	17.33	15.93	15.17	13.95	15.53	14.54	14.98
Norway	10.04	10.44	12.37	12.95	12.95	13.16	13.27	13.29	13.32	13.32	12.75
Spain	n.a.	n.a.	12.50	12.50	12.50	12.50	12.50	12.75	12.75	12.75	12.75
Sweden	11.22	12.61	12.80	13.00	13.18	13.23	13.27	13.73	13.09	13.01	13.10
Switzerland	4.20	4.63	5.40	5.19	4.90	4.64	4.43	4.31	4.27	4.22	4.22
Argentina	47.94	36.84	107.98	97.25	151.14	309.96	188.74	242.86	135.02	159.88	n.a.
New Zealand	12.98	12.99	12.55	12.99	12.97	12.73	12.94	12.82	12.96	n.a.	n.a.
Philippines	13.20	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	9.32	11.81	13.62	14.49	14.70	14.09	12.72	12.19	11.84	11.69	10.95
Venezuela	7.29	7.39	12.50	13.00	13.25	13.25	13.25	13.50	14.00	15.00	n.a.

Domestic corporate bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982							1983
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	10.75	13.00	15.50	15.75	15.25	13.50	12.88	12.00	11.75	11.75	11.88
Canada	12.07	13.62	16.48	17.80	17.27	15.99	14.78	13.61	13.58	13.05	13.54
Japan	8.34	8.60	7.70	7.90	7.90	7.99	8.05	8.10	8.10	7.55	7.25
Australia	11.65	14.25	16.50	17.50	17.75	17.50	16.75	16.75	16.75	15.00	15.00
United Kingdom	14.96	14.21	16.55	14.62	13.86	12.53	12.51	11.68	12.34	12.34	12.85
France	12.92	15.23	17.33	16.67	16.67	16.61	16.83	16.42	16.33	15.91	15.64
Germany	8.20	9.50	10.50	9.30	9.50	9.40	9.30	8.90	8.50	8.20	7.90
Netherlands	9.95	10.71	11.03	10.51	10.65	10.32	10.19	9.34	8.49	7.80	8.01
Norway	10.53	11.24	13.36	12.90	12.90	14.14	14.94	14.46	11.69	14.13	13.75
Spain	14.20	14.82	14.76	17.98	17.42	17.86	18.36	17.90	17.33	17.10	n.a.
Sweden	10.21	11.95	12.94	12.87	12.90	12.92	12.97	13.16	13.33	13.37	13.39
Switzerland	5.53	5.63	6.60	6.05	6.05	6.12	6.08	5.96	5.89	5.92	5.89
Korea	27.80	28.20	27.00	16.40	13.90	14.00	15.00	15.30	15.90	15.90	15.10
Venezuela	14.55	16.15	17.00	17.75	18.00	17.50	17.50	17.75	18.00	18.00	n.a.

Key to data in tables

I. International markets

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

Categories of borrower

U.S. companies include both parent companies and their financing affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Country of borrower

The country of the borrower is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

International bond yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield.

The yield indices are simple arithmetic averages of end-of-month secondary market yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers. Occasionally the individual issues in each category are changed.

The number of issues represented in each of the indices is as follows:

Long-Term, U.S. companies, U.S. dollar — —ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc — four foreign bond issues.

Long-term, European companies, U.S. dollar — ten Euro-bond issues.

Long-term, European companies, German mark — ten Euro-bond issues.

Long-term, governments, U.S. dollar — six Euro-bond issues (governments of Italy, Denmark, and France).

Euro-currency deposit rates

All data are prime banks' bid rates for deposits in London. Offer rates commonly used as a basis for Euro-dollar lending are generally .125% above bid rates.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — overnight financing of Treasury bills (LTN) until November 1978. New series as of December 1979, rates paid for federal funds.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Euro-dollars — prime banks' bid rate for overnight money.

Treasury bill rates

Argentina — 28-day Treasury bills.

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Brazil — 91-day Treasury bills (LTN).

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit.

Sweden — new issues of 3-month Treasury bills.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month negotiable certificates of deposit of investment banks net of taxes.

Canada — 3-month time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Key to data in tables — continued

Ireland — 3-month time deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 3-month time deposits until April 1979. New series as of May 1979, 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month time deposits. Higher rates may be negotiated for 12-month or more time deposits in large amounts.

Philippines — 3-month time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — deposits at 6-months' notice.

Switzerland — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for large amounts until December 1978. New series as of January 1979, similar rate for domestic depositors only.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — weighted average investment bank lending rate for multinational companies including tax on financial obligations (IOF).

Canada — prime rate.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .333% prior to July 1978, .25% thereafter, per quarter on the total line of credit.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — maximum legal rate for discounting commercial bills plus a commission of 1% per annum until December 1979. New series as of January 1980, preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — actual interest rate on 3-month loans to prime industrial borrowers.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

United Kingdom — clearing bank base lending rate.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for prime borrowers until December 1978. New series as of January 1979, similar rate for domestic prime borrowers only.

Domestic government bond yields

Argentina — 7% National Adjustable Bond, third series maturing in 1985, inflation adjusted by the Official Correction Index.

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 10% government bond maturing 1983 until December 1977; 10% government bonds maturing 1986 until September 1980. New series as of October 1980, 12% serial bonds maturing 2001.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

South Africa — 25-year government bonds.

Spain — 3- to 4-year government guaranteed bonds. Tax credit of 22% available to corporate and private buyers if held to maturity.

Sweden — 15-year government bonds.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Domestic corporate bond yields

Australia — long-term secured debentures, indicated by Australian United Corporation.

Belgium — Belgian National Bank average yield on private corporate bonds maturing in more than five years.

Canada — McLeod, Young, Weir Co. Ltd., average yield on ten industrial bonds.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — FAZ 6% industrial bond average until September 1978. New series as of October 1978, Bundesbank average yield on industrial bonds

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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April 1983

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Lower oil prices and world recovery

Last month's agreement by OPEC — lowering its benchmark price by $5 per barrel — was a delayed, but inevitable accommodation to long-gathering market forces. Following Britain's proposal for a North Sea selling price compatible with Nigeria's, it appears, as of the beginning of April, that the OPEC accord has a better-than-even chance of holding prices in the $25-$30 range.

For the world economy, the prospect of reasonably stable oil prices, and at a lower level than in 1981-82, is good news: first, inflation will be reduced, by as much as 1% in the industrial countries this year; second, the odds of a moderate economic recovery are enhanced, provided governments do not reinforce deflationary monetary policies as measured inflation lessens. The winter months brought encouraging signs of recovery and improved confidence in the United States, Canada, Germany, and the United Kingdom. Nonetheless, sizable risks remain, not the least that U.S. interest rates may fail to fall, or could rise further in real terms, jeopardizing the longer-term revival of investment so necessary for sustained recovery in the United States and the world at large.

Resumed OECD growth and this year's lower interest rates come none too soon for the economic and financial well-being of developing countries. Oil-importing LDCs will receive the multiple benefits of lower oil import bills, reduced interest payments, and stronger export markets. Nonetheless, few can afford any easing-off in present adjustment efforts. Oil-exporting countries, facing reduced earnings, will experience intensified financial pressures for adjustment. OPEC and other oil-exporting LDCs are headed for a collective current account deficit this year exceeding $50 billion, requiring correspondingly large "reverse recycling."

Oil prices

The fall in oil prices — from an effective OPEC average of just under $33 per barrel in January to $28.50 in late March — was the inevitable result of dramatic shifts in world oil demand and supply generated by the large price increases of 1979-80 and continuing adjustment to the first oil shock. Oil consumption dropped 6.5 million bpd, or over 12%, from 1979 through 1982. Oil inventories, built up rapidly in 1979-80, have been drawn down steadily since mid-1981 (see Chart 1). Together, the consumption decline and inventory shift reduced demand on the producing nations by 9.5 million bpd between 1979 and 1982, a drop that was absorbed entirely by OPEC (see Tables 1 and 2).

Key features of the recent OPEC agreement are national production quotas and an overall OPEC production ceiling of 17.5 million bpd for the rest of this year. The 13 nations are to maintain quality and location price differentials established last year. It is their ability to adhere to these decisions, as well as the non-OPEC producers' willingness to avoid conflicting actions and the oil buyers' expectations about the oil-exporters' resolve, that will determine to a large extent the course of oil prices.

The next few months are crucial because there is still room for further inventory reduction — particularly if oil companies believe the chances of the OPEC agreement holding are low. More fundamentally, oil consumption will be undergoing its normal seasonal fall at a time when weak economic activity in the industrial countries will be adding further downward pressure. In the short term, oil consumption will respond little to the recent oil price declines.

Indeed, for the whole of 1983 world oil consumption is likely to fall 1%-2%. The pace of decline will be greatest in the first half, slow progressively during the latter part of the year, and may eventually turn into an increase, especially in 1984, given the expected pickup in world economic growth. But the modest dimensions of price declines so far are unlikely to restore the extravagant oil consumption of the past.

In real terms, oil prices remain high by the standards of the 1960s. Investments made during the 1970s in more efficient energy use and in oil substitution are not likely to be dismantled. In some cases, they may increase in step with other investment. Further improvements in energy efficiency are on the way in the United States, through legislated gasoline consumption standards for new automobiles. Moreover, the fall in oil prices provides a case for increasing taxes on oil consumption in many industrial countries and LDCs.

In the face of mounting financial pressures and weak oil demand, especially in the near term, several OPEC members could be tempted to offer hidden discounts. Non-OPEC members may formally cut prices further in order to boost sales. Unsettled price differentials could become the incentive, or pretext, for price shading. These actions, if widespread, could even precipitate a new round of declines in oil prices.

Opposing these forces is the OPEC accord reached after protracted negotiations in London last month. Even though the agreement is vulnerable to continuing inventory withdrawals in the near term, the greater unity among the members marks a significant change from the disarray of the past nine months.

Oil demand, supply, and inventories

quarterly data in millions of barrels per day

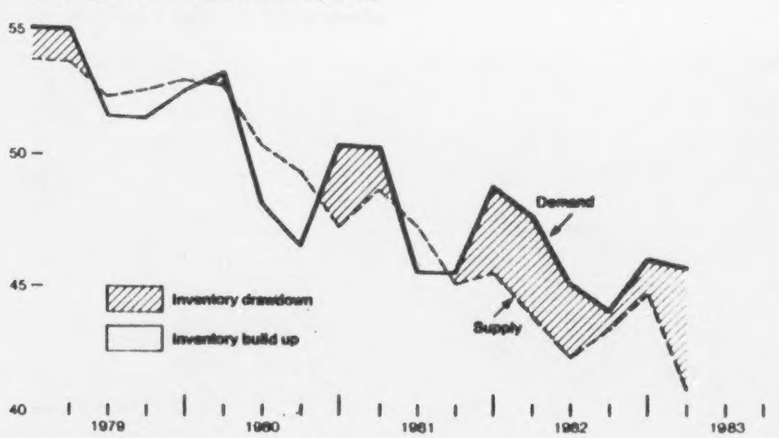


Table 1

World oil demand and supply[1]

millions of barrels per day

	Change between 1979 & 1982	*1982*	*1983*
Demand[2]	—9.4	43.8	43.8
Oil consumption	—6.5	45.7	44.8
Industrial countries	—7.2	34.5	33.8
Developing countries[3]	0.7	11.3	11.0
Stock changes	—2.8	—1.9	—1.0
Non-OPEC supplies	2.7	24.4	25.1
Non-Communist production	2.5	23.1	23.6
Communist net exports	0.2	1.3	1.5
OPEC production	—12.1	19.4	18.7
Of which: crude oil	—12.2	18.5	17.8

[1] Including natural gas liquids.
[2] Excluding Communist countries.
[3] Including OPEC.

Table 2

Distribution of OPEC crude oil production

production in millions of bpd
shares in percent

	Jan 1981	*Jan 1982*	*Jan 1983*
Total OPEC	24.6	20.8	16.7
Saudi Arabia	10.3	8.7	4.6
% share	42	42	27
Other Gulf producers[1]	3.9	2.7	2.0
% share	16	13	13
Rest of OPEC	10.4	9.4	10.1
% share	42	45	60
Of which:			
Nigeria	9	9	5
Venezuela	9	10	13
Libya	7	4	7
Iran	5	5	16
Iraq	2	6	5
Others[2]	11	12	14

[1] Kuwait, Qatar, and the UAE.
[2] Algeria, Ecuador, Gabon, and Indonesia.

OPEC also appears to have won the tacit cooperation of Mexico, the largest non-OPEC exporter, on both oil production and prices. Further, the new OPEC agreement on quotas is more substantive than last year's. By designating Saudi Arabia as the swing producer without a formal quota, and by allocating to Iraq and Kuwait quotas they are not likely to reach, the accord has a built-in downward flexibility of around 3 million bpd. That is, it effectively accommodates OPEC production as low as 14.5 million bpd — about the same as recent actual levels — even if all the other members were to reach their quota limits. Both the overall and individual production limits have been set as quarterly ceilings, with no carry-over allowed for any unused portion of the quotas. In addition, the OPEC committee appointed to monitor compliance with the agreement has been given somewhat greater powers. Finally, there is the prospect that by the fourth quarter of 1983 demand for OPEC oil may exceed the 17.5 million bpd ceiling. These factors, and the probability of an upturn in oil consumption in 1984, could well strengthen the members' resolve to adhere to the accord in the near term.

Given the uncertainties about the behavior of inventories and of OPEC members, no price projection can be asserted with confidence. In what follows, OPEC oil prices are assumed to average $28 per barrel for 1983 as a whole. This level is more than $1 below the annual average that would result if the present price structure were to survive intact and, thus, allows for price shading but no price collapse. An average price of $28 represents a drop of more than 15% from the 1982 annual OPEC average of just over $33. Allowing for inflation and a modestly weaker dollar, it implies a decline of 20% in real terms.

Industrial countries: policy response and economic outlook

Lower oil prices will shift about $40 billion from oil-exporting to oil-importing countries, not counting trade volume adjustments. The reduction in income will be felt principally by OPEC, while most of the benefit — over $30 billion — will accrue to the industrial countries and will be equivalent to about 0.4% of OECD GNP.

The reduction in oil prices has much the same effect on oil-importing countries as an excise tax cut. The first result is lower import costs. These should pass directly to a reduction of OECD inflation by up to 1% this year, allowing for related price adjustments on other energy supplies. The lower inflation, in turn, will provide a one-time boost in real incomes.

How far this gain will translate into a sustained increase in spending and real output hinges critically on the policy response of the industrial countries. Their role today is even more important than when oil prices were rising sharply. At that time oil exporters could be relied on to respend a significant part of their higher income; indeed, their absorptive capacity turned out substantially greater than expected. Today, by contrast, most oil exporters have been obliged to cut spending. Considerable weakening already is evident in industrial-country exports to OPEC and Mexico (see Table 3). OPEC import volume this year may be down some 10% from 1982. Moreover, given severe balance of payments constraints, oil-importing LDCs cannot boost spending and imports significantly.

Accordingly, the industrial countries must resist any temptation to tighten monetary policies. To do so would risk delaying world economic recovery and could impair international financial stability. In this con-

Table 3

Industrial countries:[1] merchandise exports to OPEC and Mexico

	Value of exports, $ billions, seasonally adjusted annual rates		*Exports to OPEC & Mexico % change year ago*
	To OPEC	*To Mexico*	
1980	94	21	33
1981	110	24	17
1982	106	17	—9
1981 QIV	115	25	17
1982 QI	117	20	9
QII	111	19	—6
QIII	99	16	—15
QIV	99	10	—22
1983 Jan-Feb (est)	95	8	—25

[1] United States, Canada, Japan, Germany, France, United Kingdom, Italy, Belgium, Netherlands, Spain, Sweden, and Switzerland. These 12 countries supply three-quarters of OPEC and Mexico's total merchandise imports.

nection, any new upward surge of the dollar in exchange markets would be disruptive. Fear of renewed depreciation of their currencies limits the scope of foreign monetary authorities to reduce their own domestic interest rates, but without lower domestic interest rates, economic recovery abroad may not be sustained.

Wise response to the lower oil prices should not impede their stimulative effects nor hamper efforts to achieve a reduction of real interest rates. Lower oil prices do not, in themselves, warrant adjustment of targets for money supply growth in nominal terms. With unchanged targets, a given growth in nominal income implies higher growth of real output if general inflation lessens. As shown in Table 4, current monetary targets allow room for moderate economic recovery in the United States, Germany, and Japan, provided the authorities aim for the upper ends of their target ranges. This assumes, of course, that velocity does not fall as much as last year. That expectation will have to be monitored closely, lest present monetary targets prove ill-chosen.

The reduction of inflation and inflationary expectations should permit a reduction of nominal interest rates, contrary to the recent upward drift in U.S. rates. Whether interest rates also fall in real terms rests in part on the outlook for government financing and on financial-market perceptions of prospective budget deficits. Since a portion of the income transfer to the industrial countries from the oil exporters will be saved, a given budget deficit can be financed at a lower interest rate. Increased taxes on energy consumption could contribute, at least marginally, to a narrowing of budget deficits where they are a genuine obstacle to reduction of interest rates.

Table 4

Monetary targets and income growth in 1983

% change per annum

	Target aggregate	*Target rate of monetary growth[1]*	*Projected % change*			*Implied change in velocity*	
			Real GNP	*GNP deflator*	*Nominal GNP*	*1983*	*1982*
United States	M1	8.8	2.6	4.4	7.0	—1.8	—2.4
	M2	9.0	2.6	4.4	7.0	—2.0	—3.4
Japan	M2+CD	7.5	3.2	1.6	4.9	—2.6	—4.1
Germany	Cent'l. Bank Money	6.5	0.9	3.6	4.5	—2.0	—1.6
France	M2	9.0	0.0	10.2	10.2	1.0	—0.3
United Kingdom	£M3	9.2	2.5	6.5	9.2	0.0	—3.8

[1] Computed at upper end of target range: standardized to yield approximate calendar-year average growth rates.

Of course, the real income benefits of lower international oil prices should not be taxed away. The fundamental justification for higher energy consumption taxes is to sustain long-term conservation. Where budgetary considerations are not overriding, increased revenues from energy levies will allow reductions in other taxes. Further, to foster energy production and development, the United States and Canada need to review taxation of their energy industries, as Britain has done for North Sea producers in the March budget.

Given present policies in the major industrial countries, which have generated some reduction over the past year in nominal interest rates, the new stimulus imparted by oil price declines should promote a moderate economic recovery. The signs of economic revival among the seven major industrial economies are most evident in the United States, Germany, the United Kingdom, and Canada. The rebound is expected to be less strong than the typical experience following previous recessions in the postwar period: after declining 0.5% in 1982, overall real GNP in the seven major industrial countries is expected to advance about 2% in 1983 (see Table 5). Given productivity increases normally achieved during economic recovery, this output growth will not

Table 5

Real GNP/GDP

% changes

	1981	*1982*	*1983*
United States	1.9	—1.8	2.6
Canada	3.1	—4.8	1.0
Japan	3.8	3.0	3.2
France	0.3	1.5	0
Germany	—0.2	—1.2	0.9
United Kingdom	—2.4	1.2	2.5
Italy	—0.2	—0.3	0
weighted average (1981 GNP weights)	1.5	—0.5	2.0

dramatically reduce the high levels of unemployment in these economies. Nor is there any chance that recovery will be investment-led, as had been hoped two years ago prior to the long slide in capacity utilization. Pickup in business investment will, at best, be delayed till the second half of 1983 and is even then contingent on robust expansion of consumer demand.

In the United States, the upswing in economic activity in early 1983 can be traced mainly to a slowing of the sharp inventory decumulation that took place late last year and to the remarkable rebound in residential construction. Real GNP is expected to grow 2.5% or more in 1983 on a full-year comparison, which translates into a little more than 4% growth from the end of 1982 through the end of 1983. On the whole, recent statistics point to continued recovery: industrial production has been rising since December, while housing starts attained a 1.75 million annual rate in February, more than twice their 0.84-million low in November 1981. The index of leading indicators jumped 3.5% in January and climbed a further 1.4% in February. But if the economic rebound is to bring enduring advance, consumer demand must strengthen. In volume terms, retail sales held flat during this past winter and the latest reading on factory orders showed a decline in February. More promising for the future, however, is the recent stability of unemployment and prospective gains in real disposable incomes.

Economic growth in the United States is a prerequisite for sustained economic advance in Canada. Currently, the Canadian economy is showing distinct signs of turnaround. Industrial production rose 5% in January, following little change in the previous two months. Housing starts in early 1983 were more than 50% above the low levels reached last summer. Significant also is an apparent slowdown in inventory destocking. Increased exports to the United States and, in time, less inhibited consumer spending are further important forces that should underwrite overall expansion: the fall in real consumer spending accounted for 1.5 percentage points of the 5.7% drop in real GNP over the last four quarters.

Few European countries can hope for speedy recovery. Germany may be one exception. German factory orders rose 6.7% in January after increasing 4% in December and 6.4% in November. Industrial production rose 1% in January. For the year, 1% growth in real GNP looks achievable, or 4% from the fourth quarter of 1982 to the fourth quarter of 1983. Rising consumption and investment spending are the essential engines of growth. The main stimulus to consumption will come from higher real incomes and from lower saving rates as consumer confidence is restored. Real consumer spending fell 2.5% from the end of 1981 to the end of 1982, outpacing the 2% decline in real GNP. However, the saving rate fell from 15.6% in the first quarter of 1982 to 14% in the last quarter, leaving it little above the 13.5% rate of the expansion years in the late seventies. Further decline or stability of the saving rate will speed the economic recovery.

A second key to German economic recovery is an upturn in investment promoted by lower interest rates and a revival of consumer spending. An important step is the recent one-percentage-point cut in German official rates, which will help spur construction activity. While construction orders began to increase in real terms during 1982, year-end orders were still below the levels of early 1981.

Real GDP of the United Kingdom

Table 6

Consumer prices

% changes, December-December

	1981	*1982*	*1983*
United States	8.9	3.9	3.5
Canada	12.1	9.3	5.5
Japan	4.4	2.4	2.0
France	14.0	9.7	8.5
Germany	6.3	4.6	2.0
United Kingdom	12.0	5.4	7.5
Italy	19.0	16.3	15.0
weighted average (1981 GNP weights)	9.3	5.4	4.5

Table 7

Current account balances

billions of dollars

	1981	*1982*	*1983*
United States	5	—8	—25
Canada	—5	2	3
Japan	5	7	15
France	—5	—12	—6
Germany	—7	3	9
Italy	—9	—6	—2
United Kingdom	12	7	—2
Total	—4	—7	—8

could be up 2.5% in 1983. Already in 1982, and against the tide, Britain scored a 1.2% gain in real GDP — but with still-rising unemployment and sagging industrial activity during the second half. The main growth impetus comes from consumer spending, which rose sharply beginning last summer. For some time that advance was met by massive stock drawdowns. Only in December and January did manufacturing output finally pick up. Business confidence now has clearly improved, with wide-ranging increases being reported in new orders. Lower nominal interest rates are encouraging construction and consumer borrowing. Consumer spending is further underwritten by the recent budget's personal income tax reductions. In time, moreover, the major gain in competitiveness of domestic producers, provided by sterling's exchange market slide since November, should yield gains in overall economic activity commensurate with rising domestic demand.

France has little hope of GDP growth this year. The economy is constrained by the austerity measures undertaken in conjunction with the EMS realignment. Those measures impose forced savings on high income groups and increase taxes on alcohol, tobacco, and energy. Also, social security taxes will be raised by 1% of taxable income. Consumer spending was the driving force behind French real growth over the past two years and will have to be restrained to correct the current account deficit. The austerity measures are intended to cut consumer purchasing power by 2%. To help reduce the current account deficit, French tourists now are limited to 2000 francs annual spending abroad.

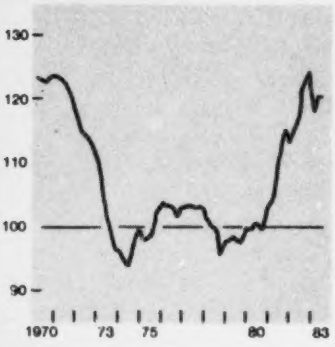
Neither is the Italian economy expected to grow in 1983. Economic policy aims to reduce the large public-sector deficit, over 15% of GDP in 1982, through spending cuts and tax increases, and to curb the high rate of inflation. At 16%, Italian inflation is far above inflation in other major countries. This year's renegotiation of the wage indexation machinery lowers the automatic degree of wage indexation by 15%, which should facilitate reduction of inflation.

In Japan, there is no immediate sign of a growth upturn. Industrial production, declining three months in a row, dipped 0.9% in February. Both consumption and investment, the twin sources of growth in 1982, are expected to grow more slowly this year. Real consumption is braked by lower wage increases. Investment will be held back by high real interest rates and by excess capacity, especially in export-related industries. Nonetheless, as stockbuilding and residential construction pick up, real GNP will grow by 3.2%, scarcely more than in 1982.

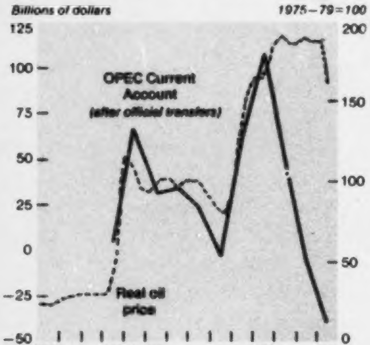
The decline in oil prices will further cool OECD inflation, which has been receding for more than two years as a result of the long recession. By the end of 1983, consumer price increases should decline to an average 4.5% for the seven major industrial countries, following 5.4% in 1982 and 9.3% in 1981 (see Table 6). Maintaining or bettering the surprisingly good outcome of last year, consumer prices are likely to increase by 3.5% or less in the United States, Germany, and Japan in 1983. In the United Kingdom, by contrast, consumer prices will accelerate in the months ahead as sterling's steep depreciation feeds through the domestic price structure. Italy and France will once again suffer much higher inflation rates than the other major countries, in part because exchange rate depreciation will reduce the anti-inflation bonus from the decline in dollar oil prices.

Real effective dollar exchange rate

index, 1975–79=100



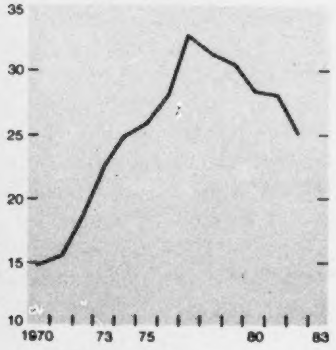
Oil prices and the OPEC current account



Real oil price=effective OPEC oil price deflated by index of OECD manufactures prices in dollar terms

U.S. net oil imports

as percent of total industrial countries'net oil imports



For the seven largest industrial countries as a group, the oil import savings from lower prices may approximately offset the adverse current account impact of higher economic growth and increased imports. Their combined current account deficit could show little change in 1983 (see Table 7). The distribution of their joint deficit should, however, shift significantly. The appreciation of the dollar over the past two years and the recovery of the U.S. economy would be the main factors behind this shift. The U.S. deficit may increase by $17 billion, from $8 billion in 1982 to $25 billion this year. The combined current account surpluses of Japan and Germany could increase by $14 billion, from $10 billion to $24 billion. At the same time, increased exports to growing economies, lower oil prices, and minimal domestic growth should shrink the combined deficits of Italy and France from $18 billion last year to $8 billion in 1983. Falling oil prices and economic recovery may push Britain's current account into balance or small deficit this year, after a $7 billion surplus in 1982.

Although many analysts believe that the current account shift between the United States and other industrial countries will yield a significant weakening of the dollar, such an outcome is far from assured. Over the past few years, exchange rate changes have been influenced to a much greater extent by capital flows than by current account developments. The dollar will continue to benefit from a favorable interest rate differential, in real and nominal terms, and from international economic and political uncertainty. While the OPEC current account deficit undoubtedly will lead to sales of dollar assets by member countries, these will only have an exchange rate impact insofar as the asset preferences of the new holders differ significantly from those of OPEC. As Chart 2 illustrates, the dollar has fluctuated in the same general direction as real oil prices over the past decade, but its surge in 1981-82 occurred while the OPEC current account surplus was disappearing. Movements of the dollar were more heavily influenced by changes in U.S. oil-import dependence and U.S. anti-inflation policies — particularly high real interest rates — than by oil price movements or the OPEC surplus. By contrast, there is a closer relation between oil price changes and fluctuations of sterling and the yen, with sterling weakening and the yen normally strengthening in periods of falling oil prices. Yen strength now would be a highly welcome development in view of its sizable undervaluation and mounting trade frictions.

Prospects for the major non-oil LDCs

For the 12 oil-importing LDCs who are also major borrowers in the international financial markets, net oil import bills in 1982 were $32 billion. Lower oil prices in 1983 should reduce those costs by $4-$5 billion, a significant fraction of the group's $33 billion current account deficit in 1982. Measured against outlays for imports of other goods and services, excluding interest payments, Table 8 shows that the direct benefit of lower oil prices is especially important for Brazil, Turkey, and Thailand, and also provides substantial relief for the Philippines and Korea.

In addition, the 12 oil importers should achieve a $300 million reduction in oil import bills through volume savings. Their domestic oil production is set to rise 10% this year and will furnish 31% of their consumption needs, up from 23%

Table 8

Oil-importing LDCs: implications of a $28 per barrel oil price for 12 major borrowers

	Decrease in net oil imports in 1983		
	$ billions[1]	% of 1982 imports[2]	% of 1982 GNP
Argentina	0.0	0.0	0.0
Brazil	1.4	8.0	0.5
Chile	0.1	1.6	0.3
Colombia	0.1	1.1	0.1
Korea	1.0	4.7	1.5
Philippines	0.3	4.1	0.8
Taiwan	0.6	3.1	1.2
Thailand	0.4	6.1	1.1
Ivory Coast	0.1	3.3	1.0
Morocco	0.2	4.0	1.1
Israel	0.3	2.3	1.2
Turkey	0.5	8.4	0.9

[1] Reduction of 15% in 1982 net oil imports value, before volume adjustment.

[2] Goods and services excluding oil and interest.

Table 9

Oil-importing countries: external position of 12 major borrowers[1]

	1981	1982	1983
Non-oil export volume, % change	11.8	—0.5	5.0
Non-oil import volume, % change	3.9	—9.5	4.0
Net oil imports, mm bpd	2.7	2.5	2.3
Terms of trade, 1977-79=100	80	81	82
$ billions			
Merchandise exports	111	106	115
Merchandise imports	—127	—112	—115
Trade balance	—16	—6	0
Oil trade balance	—36	—32	—27
Net interest payments	—22	—26	—23
Other services and transfers, net	—1	—1	0
Current account	—39	—33	—23
as % of exports of goods and services	26	23	14
Total external debt, year-end	267	294	318

[1] Argentina, Brazil, Chile, Colombia, Korea, Philippines, Taiwan, Thailand, Ivory Coast, Morocco, Israel, Turkey.

as recently as 1979. Moreover, from 1979 through 1982, the group's consumption appears to have diminished 7%, against a 4% rise in their GNP — a quite unexpected conservation achievement.

A second plus for the borrowing countries this year is the decline in international interest rates. Total external debt of the 12 major non-oil LDCs rose just over 10% in 1982, standing close to $300 billion by year-end. At 1982 interest rate levels, the rise in outstandings would have swollen the group's net interest payments by over $3 billion in 1983. Instead, lower interest rates mean that they should see net interest payments lessened by $3 billion. Thus, even with allowance for rising loan-rate spreads and reduced earnings on external assets, lower world interest rates confer a $6 billion net benefit on these LDCs — with Brazil, Argentina, and Korea the main beneficiaries.

The financial and economic prospects of the oil-importing LDCs in 1983 depend most of all on the projected economic recovery in their industrial-country export markets. In 1982, when there was an overall reduction in world trade volume of some 2%, the exports of the 12 major non-oil LDCs slipped by less than 1%. This was a respectable showing in the global context, but a disastrous outcome when set against the 12% average annual export volume gains they had achieved over the 1975-81 period. Moreover, while the terms of trade of these LDCs did not deteriorate further last year — softer oil and import costs in dollar terms offset, on average, continued erosion of export prices — those terms of trade remained 20% less favorable than in the more benign conditions of 1977-78.

Nonetheless, scarcity of foreign exchange in 1982 obliged the group to cut back import volume by 9.5%, leaving little room for GNP growth. Indeed, Argentina and Chile suffered major declines in overall economic activity of 4% and 14%, respectively. Most Asian countries achieved GNP gains well below their normal expectations.

Latest forecasts for LDCs still are marking down hopes for 1983, in light of the disappointing outcome for 1982 and the extreme weakness of world trade during the past winter. Gloom can be exaggerated. The current trend in industrial-country forecasts is to upgrade cautiously the expected scale of aggregate demand recovery. Upturn in the inventory cycle should quickly generate revival of demand for LDC exports, although some will be frustrated by protectionism.

For the 12 major non-oil LDCs the current account projections in Table 9 assume a 5% average gain in export volume this year — modest in historical perspective, but perhaps realistic when viewed from the depressed position of today. Likewise, the projected 5% rise in non-oil LDC export prices would be feeble for a normal period of world economic recovery, but in fact assumes sizable advance, relative to present levels, through the balance of 1983.

Since external financial conditions remain difficult, the non-oil LDCs cannot look forward to fast GNP growth this year. For the twelve major borrowers, average GNP growth may be little more than 1%, which would hold total imports to a rise of less than 3% in volume terms. On these assumptions, their joint current account deficit should shrink by $10 billion or more from last year's $33 billion outcome. The $10 billion improvement would represent $5 billion in net oil import savings, a $3 billion reduction in net interest payments, and a $2 billion improvement in net trade in other goods and services.

The new money required to fi-

Table 10

OPEC current account

billions of dollars

	1980	*1982*	*1983*
Total OPEC			
Oil revenues	274	193	154
Other exports of goods and services[1]	28	29	28
Imports of goods and services[1]	—200	—235	—224
Investment income, net[2]	13	16	8
Current account	116	2	—34
Official transfers, net	—9	—8	—6
Current account after transfers	107	—6	—40
Four Gulf producers[3]			
Oil revenues	142	103	73
Other exports of goods and services[1]	9	12	11
Imports of goods and services[1]	—83	—106	—108
Investment income, net[2]	12	20	14
Current account	80	29	—10
Official transfers, net	—8	—8	—5
Current account after transfers	72	21	—15

[1] Excludes investment income but includes private transfers.

[2] Excludes oil sector investment income which is included in the calculation of oil revenues.

[3] Saudi Arabia, Kuwait, Qatar, and the UAE.

nance their remaining $23 billion current account deficit will not be easily obtained, nor will the maturing portion of their $300 billion outstanding debt be readily refinanced. Lenders and borrowers, however, can take some tentative encouragement from the gradual improvement in the external environment facing non-oil LDCs. No relaxation of adjustment efforts is warranted, however, since a more helpful global environment was always an underlying assumption in adjustment programs.

Outlook for the oil-exporting LDCs

The immediate implications of lower oil prices for the oil-exporting LDCs are negative. Economic recovery in the world at large will ultimately be helpful to oil exporters. In the near term, however, the pluses — lower interest rates and strengthening demand for non-oil exports — are likely to be offset by the sharp decline in these countries' oil and gas earnings. Oil comprises the great bulk of their total exports of goods and services — over 80% for OPEC members and about 50% for Mexico.

The 13 OPEC members will be the hardest hit by lower prices and demand. An average price of $28 per barrel for 1983 implies a near-$40 billion decline in OPEC oil revenues to $154 billion, the lowest since 1978. Exports of natural gas also will be adversely affected by lower oil prices. OPEC's other non-oil exports are small. The result will be import cutbacks and a larger current account deficit.

OPEC members have the ability to reduce imports substantially. Indeed, they have already done so. OPEC's total imports of goods and services rose over 20% by volume in 1981, but less than 5% in 1982. The full-year gain in 1982, however, masked cutbacks as the year proceeded, as is confirmed by industrial countries' export data (see Table 3). In 1983 OPEC imports of goods and services could well contract by almost 10% in volume. Even with this decline, the OPEC current account will shift into deficit of about $40 billion in 1983, from near balance in 1982 (see Table 10).

Most of the deterioration in the aggregate OPEC current account is likely to be absorbed by Saudi Arabia and the other three oil exporters of the lower Gulf—Kuwait, Qatar, and the UAE. These countries not only are experiencing the largest drop in oil production, but also in prices. Having adhered most closely to OPEC's previous benchmark price of $34, they face a greater decline in their export prices than those OPEC members that offered discounts in 1982. Thus, even though the Gulf producers also are likely to cut imports of goods and services, perhaps by 3% in volume, their aggregate current account is projected to shift from a surplus of over $20 billion in 1982 to a deficit of around $15 billion in 1983.

This deterioration need not place severe strains on the Gulf economies. The four together had estimated official foreign asset holdings of over $250 billion at end-1982. Nor should the use of external assets by these four countries cause liquidity problems in financial markets, since use of these assets merely implies their shift to other hands.

For those oil-exporting LDCs that are major borrowers the challenge will be much more serious. Their 1983 current account and external financing needs are shown in Table 11. The group consists of nine countries, members and nonmembers of OPEC. Their $75 billion *net* oil and gas exports in 1982 represented almost 60% of their total foreign exchange earnings. Between 1980 and 1982 the combined current account of these countries swung from a

Table 11

Oil-exporting countries: external position of nine major borrowers[1]

	1980	1982	1983
Oil sector			
Oil production, mm bpd	10.2	9.8	9.7
Net oil exports, mm bpd	7.1	6.1	6.0
Average export price, $/barrel	32.0	31.8	28.0
$ billions			
Net oil & gas exports	85	75	66
Non-oil & gas trade balance	—58	—66	—61
Exports	29	23	25
Imports	—87	—89	—86
Net interest payments	—7	—16	—16
Other services and transfers, net	—17	—19	—18
Current account	3	—26	—29
as % of exports of goods and services	2	22	24
Total external debt, year-end	151	208	230
Official foreign assets, year-end	48	25	18

[1] Algeria, Ecuador, Egypt, Indonesia, Malaysia, Mexico, Nigeria, Peru, and Venezuela.

Table 12

Oil-exporting countries: implications of a $28 per barrel oil price for nine major borrowers

	Change in net oil exports in 1983		
	$ billions[1]	% of imports[2]	% of 1982 GNP
*Indonesia**	—2.3	10.7	2.5
*Venezuela**	—2.2	12.7	3.1
*Nigeria**	—1.7	10.0	2.5
Mexico	—1.5	6.5	0.9
*Algeria**	—1.3	9.6	3.2
*Ecuador**	—0.3	13.1	2.4
Malaysia	—0.2	1.3	0.8
Peru	—0.2	5.0	1.2
Egypt	—0.1	1.0	0.3

*Member of OPEC.

[1] After adjustment for price differentials and export volume changes.

[2] Goods and services, excluding oil and interest, before adjustment to lower oil earnings.

modest surplus to a deficit of $26 billion. Their imports climbed rapidly until 1981, while a steady drop in oil and non-oil export volumes was compounded in 1982 by a $2.50 drop in their average oil export price. Thus, in just two years, their total external debt grew nearly 40% and exceeded $200 billion by end-1982, of which two-thirds is owed to banks. Of the total, $76 billion or 36% falls due this year.

The projected decline in oil prices to an average of $28 per barrel in 1983 will reduce these countries' *net* earnings from oil and gas exports by about $9 billion, or 12%. The impact will range from a high of over $2 billion for Indonesia (over 2.5% of GNP) to a low of $100 million for Egypt (0.3% of GNP, see Table 12). With the notable exception of Nigeria, most of these countries' excess oil production capacity is small. To raise oil production would, in any event, jeopardize price stability.

Lower world interest rates will help these nine countries by reducing their gross interest payments on floating rate debt. Their total net interest payments, however, may change little because of rising debt outstandings, stiffer terms on new borrowings, and lower earnings on declining external assets.

More significant is the expected rise in these countries' other exports of goods and services. Most of the improvement will be realized in late 1983 and in 1984, as industrial country growth picks up. In 1983, such earnings (excluding interest receipts) could rise $2-$3 billion for the nine countries, with Malaysia, Indonesia, and Mexico being the main beneficiaries.

Lack of foreign exchange will compel another round of import cutbacks this year by most of these countries. Several will suffer outright declines in overall economic activity. In the aggregate, their imports of goods and services (excluding oil, gas, and interest) may be down by nearly 8% in volume. This would help contain their 1983 current account deficit to just under $30 billion, $3 billion higher than in 1982.

The increased current account deficit of these oil-exporting countries, together with the refinancing of their maturing debt, poses a major challenge for international finance in 1983. The projected current account deficit presumes resolute adjustment by the borrowing countries. In view of the new oil export shortfall, external lenders — notably the IMF and the commercial banks — must be prepared to see an increase in their exposure to oil exporters somewhat exceeding earlier objectives. For a time, the great recycling of funds from oil producers to consumers must, of necessity, be reversed.

Statistical appendix

for key to data in tables see March 1983 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Effective exchange rates

Index numbers, March 1973=100. The index of the effective exchange rate for a currency is a measure of that currency's trade-weighted average appreciation or depreciation vis-à-vis the currencies of 15 other major countries. The exchange rates used in the construction of this index are the averages of daily noon spot exchange rates in New York for months and for weeks ending on dates shown. The trade weights used are based on 1976 bilateral trade in manufactures.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
pre-June 1970 parities	118.5	94.9	79.3	116.2	91.6	97.5	110.9	95.9	98.2	88.3	97.8	97.9	98.1	102.2	92.2	98.4
Smithsonian central rates	107.0	101.3	88.7	116.0	95.4	96.1	108.3	97.0	99.1	91.6	98.0	96.0	96.3	100.5	91.7	98.1
1982																
March	114.1	83.3	115.6	78.0	139.1	81.9	45.6	95.8	120.6	190.0	122.4	83.1	109.6	81.9	80.1	61.9
April	115.2	83.2	115.0	77.5	140.4	81.6	45.2	95.1	120.3	185.0	123.1	82.9	110.0	81.8	80.3	61.8
May	113.6	82.3	117.2	77.4	141.6	82.3	45.2	95.7	120.7	180.9	123.8	84.1	109.2	81.4	79.3	62.1
June	118.8	80.2	112.9	78.5	142.0	78.9	45.0	95.4	121.6	178.1	123.8	82.5	110.1	81.9	80.2	61.4
July	119.9	80.7	112.1	78.8	142.6	76.8	45.1	95.6	122.0	179.7	124.1	82.0	108.8	82.0	79.3	61.1
August	119.8	82.5	110.9	78.9	142.8	76.5	45.0	95.3	122.8	179.6	124.3	81.7	104.2	82.7	77.3	61.2
September	120.4	83.3	109.7	79.2	143.2	75.8	45.0	94.8	123.6	179.1	124.6	81.3	102.0	82.6	76.4	61.4
October	121.9	83.9	107.2	80.0	144.4	76.0	44.7	94.5	124.9	179.5	124.2	83.5	102.2	73.0	76.5	61.1
November	121.9	84.3	110.9	77.6	144.8	76.3	44.2	94.6	125.3	180.0	125.9	84.7	103.1	70.3	76.6	59.6
December	118.7	83.0	119.5	74.1	147.3	77.5	44.7	94.9	125.7	184.5	127.1	86.2	102.7	69.3	76.0	54.2
1983																
January	117.1	83.5	123.7	71.4	147.5	77.6	45.0	95.1	126.4	191.4	127.0	86.8	101.9	69.2	76.3	53.4
February	118.3	83.8	122.9	70.4	147.6	77.7	44.9	95.0	126.3	189.7	127.0	86.5	102.6	69.3	76.0	52.9
February 4	119.6	83.5	121.4	70.5	146.6	77.2	44.9	95.2	126.4	191.6	126.8	86.6	102.7	69.5	76.8	53.1
11	118.2	84.0	122.7	70.6	147.5	77.6	44.9	95.0	126.2	189.8	127.0	86.6	102.7	69.3	76.2	53.1
18	117.5	84.0	123.8	70.3	148.0	77.8	45.0	95.1	126.3	190.2	127.1	86.5	102.5	69.1	75.8	52.8
25	118.1	83.8	123.7	69.8	148.1	77.9	45.0	95.0	126.3	188.3	127.4	86.3	102.3	69.3	75.6	52.6
March 4	118.7	83.9	122.7	69.5	148.2	77.9	44.9	95.2	126.4	186.6	127.7	86.3	102.6	69.3	75.0	52.5
11	118.7	84.1	123.1	69.3	149.7	77.9	44.1	95.9	126.9	185.9	128.7	86.1	102.2	69.4	69.1	52.2
18	118.7	84.2	122.5	68.9	149.9	78.1	44.0	96.7	126.6	185.2	128.6	86.2	102.0	69.3	69.0	52.0
25	119.8	84.3	123.3	68.2	151.4	74.6	44.4	97.0	126.6	187.2	129.3	87.8	102.6	69.5	69.3	51.6

Real effective exchange rates

Index numbers, March 1973=100. The index of the real effective exchange rate is the index of the effective exchange rate adjusted for inflation differentials which are measured by wholesale prices of nonfood manufactures. Exchange rates and trade weights used in the construction of this index are the same as those used for effective exchange rate indices. Annual figures are averages of months.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
1979	96.3	92.1	95.7	118.4	103.9	98.9	93.0	95.8	100.3	116.8	107.6	100.7	92.6	99.0	88.2	109.0
1980	97.9	91.3	93.4	137.8	100.6	100.6	95.9	90.4	98.4	106.5	108.2	93.3	94.3	100.4	89.6	103.1
1981	106.6	91.4	94.2	140.5	96.2	98.7	91.0	84.5	96.0	105.4	105.9	89.0	[illegible]	101.1	98.8	97.5
1982	117.2	91.6	83.3	135.6	99.0	96.1	89.6	77.0	100.4	108.8	107.2	86.9	[illegible]	95.8	101.0	97.1
1982																
March	114.3	92.3	85.6	135.2	97.7	98.2	89.9	77.0	99.8	113.8	107.2	85.7	102.7	98.0	101.3	97.8
April	114.6	93.0	85.0	134.3	98.1	98.7	89.3	76.6	99.3	110.8	107.5	86.0	103.6	98.0	101.9	98.2
May	112.6	92.0	86.3	133.9	98.7	100.4	89.4	77.5	99.8	108.4	107.6	86.6	103.2	97.5	101.2	99.5
June	118.5	89.3	82.4	135.8	99.2	96.1	88.7	77.1	100.6	107.0	107.2	86.1	102.9	97.6	102.8	98.9
July	120.3	89.3	81.2	136.5	99.4	94.0	89.1	77.0	100.5	107.2	107.4	85.7	101.6	98.1	102.4	99.0
August	120.3	90.8	80.3	136.7	99.5	93.0	89.5	77.0	100.8	107.2	107.2	85.9	97.5	99.0	100.8	99.6
September	119.5	93.0	79.6	137.6	99.9	92.3	89.8	76.4	101.2	107.0	107.0	85.7	96.2	98.8	100.3	99.7
October	122.5	92.2	77.0	139.0	100.1	93.3	89.1	75.9	101.5	107.1	107.2	88.2	96.2	90.0	100.2	99.2
November	122.7	92.2	79.6	135.3	100.2	93.5	89.4	75.8	101.5	107.2	107.4	88.7	97.1	88.1	100.3	96.8
December	119.4	90.9	85.5	130.8	101.7	95.7	90.5	75.5	101.9	105.7	109.1	89.9	96.9	87.1	99.5	89.8
1983																
January	116.6	91.8	88.9	129.0	102.0	96.3	91.7	75.8	101.9	103.7	109.1	89.9	95.7	89.0	100.5	87.9
February	118.7	91.4	87.7	126.8	101.7	96.4	91.8	75.4	101.4	104.7	108.5	89.4	96.1	90.3	100.2	87.2

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, and Singapore billions of dollars (rounded to nearest $5 billion), at end of period

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	
										Jun	Sep
Estimated size											
Gross	315	395	485	595	740	950	1 235	1 525	1 860	1 915	2 015
Liabilities to nonbanks	55	80	90	115	145	190	260	345	440	465	475
Liabilities to central banks	40	60	65	80	100	115	145	150	130	110	105
Liabilities to other banks[a]	220	255	330	400	495	645	830	1 030	1 290	1 340	1 435
Net	160	220	255	320	390	495	590	730	890	910	940
Claims on nonbanks	70	105	130	165	210	265	330	425	530	550	575
Claims on central banks and on banks outside market area[b]	70	95	105	130	150	185	200	230	275	270	275
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	20	25	30	45	60	75	85	90	90
Eurodollars as % of gross liabilities in all Eurocurrencies	74	76	78	80	76	74	72	75	78	80	81

a Includes unallocated liabilities
b Includes unallocated claims
c In European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1979	1980	1981	1982						1983	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Eurodollar:											
overnight	14.00	19.25	12.87	11.50	9.00	10.50	9.50	8.88	9.25	8.63	8.63
7-day fixed	14.00	19.75	13.00	11.75	9.25	10.50	9.50	9.00	9.25	8.75	8.63
one month	14.37	19.12	13.31	12.13	10.94	11.00	9.62	9.38	9.13	9.00	8.56
three months	14.44	17.55	13.75	13.06	11.88	11.44	10.00	9.88	9.19	9.25	8.75
six months	14.44	16.37	14.81	13.38	12.44	11.94	10.19	10.13	9.50	9.56	8.88
twelve months	12.87	14.87	14.75	14.06	12.87	12.19	10.50	10.38	9.63	9.75	9.13
Euromark:											
one month	8.50	8.87	10.44	8.87	8.12	7.62	7.00	7.19	5.88	5.63	5.38
three months	8.56	8.87	10.50	8.87	8.19	7.75	7.00	7.06	5.88	5.63	5.25
six months	8.56	8.87	10.56	9.12	8.44	7.94	7.00	7.06	5.94	5.69	5.38
twelve months	8.12	8.93	10.25	9.12	8.44	7.94	6.94	7.00	6.00	5.88	5.50
Euro-Swiss franc:											
one month	5.19	6.00	8.87	3.25	3.25	3.81	3.00	3.94	2.81	2.38	2.88
three months	5.75	6.00	9.25	4.25	4.00	4.37	3.56	4.06	3.25	2.75	3.00
six months	5.87	5.75	9.25	5.12	4.88	4.81	4.12	4.06	3.44	3.38	3.38
twelve months	5.56	5.50	8.50	5.12	4.94	4.81	4.19	4.19	3.44	3.56	3.63
Eurosterling:											
one month	16.75	14.75	15.37	11.88	11.00	10.88	9.88	10.44	10.56	11.50	11.38
three months	16.75	14.75	15.69	11.81	10.81	10.50	9.44	10.44	10.44	11.50	11.25
six months	16.75	14.25	15.69	11.81	10.81	10.50	9.44	10.38	10.31	11.44	13.19
twelve months	15.25	14.00	15.37	11.94	10.81	10.50	9.44	10.31	10.31	11.25	10.75
Euro-French franc:											
one month	13.87	11.12	15.75	14.75	21.00	16.25	20.00	19.50	23.00	16.00	21.50
three months	14.00	11.75	17.00	16.00	23.75	18.00	20.00	19.75	24.00	20.00	23.00
six months	14.12	12.25	18.00	17.37	22.75	19.00	20.00	20.38	22.00	20.00	21.25
twelve months	13.75	12.87	18.25	18.00	21.00	19.25	19.00	20.00	19.75	18.00	18.38
Euroyen:											
one month	7.62	9.12	6.12	6.69	7.06	7.00	6.75	7.31	6.75	6.56	6.69
three months	8.31	9.25	6.12	7.12	7.31	7.25	6.88	7.25	6.75	6.56	6.63
six months	8.62	9.62	6.87	7.38	7.44	7.50	6.94	7.19	6.81	6.50	6.50
twelve months	7.94	9.37	6.87	7.12	7.44	7.56	7.00	7.19	6.81	6.63	5.56

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	1981	1982	1983			Jan-Mar	
				Jan	Feb[r]	Mar[p]	1983	1982
Industrial countries	**39 100**	**86 022**	**42 532**	**2 684**	**3 544**	**2 923**	**9 151**	**10 129**
Australia	2 475	1 680	4 721	—	500	100	600	2 277
Canada	1 743	4 112	3 838	—	—	—	—	1 750
Denmark	1 720	1 661	789	1 300	—	—	1 300	627
France	1 745	3 912	5 653	—	300	110	410	200
Greece	1 333	1 039	770	20	—	500	520	550
Ireland	237	1 361	401	—	41	—	41	100
Italy	6 268	6 030	3 457	122	289	462	873	1 003
Norway	685	713	2 069	—	—	100	100	27
Portugal	745	1 590	1 388	—	—	—	—	221
Spain	5 457	3 242	1 806	101	731	104	936	791
Sweden	1 370	1 807	649	—	1 600	460	2 060	—
United Kingdom	1 470	747	1 635	39	—	265	304	416
United States	6 719	54 784	6 566	552	48	333	933	1 334
Other[a]	7 133	3 284	8 790	550	35	489	1 074	833
Developing countries	**35 054**	**45 239**	**40 781**	**7 406**	**7 192**	**861**	**15 459**	**11 981**
Non-OPEC countries	24 009	33 369	28 276	6 089	**6 235**	706	13 030	8 783
Argentina	2 506	2 534	1 565	—	—	—	—	445
Brazil	4 158	5 751	5 716	45	4 405	—	4 450	1 440
Chile	1 322	2 204	1 194	—	—	—	—	224
Colombia	608	1 005	227	—	—	—	—	52
Korea	1 917	2 824	2 923	220	635	40	895	607
Malaysia	—	1 725	1 909	60	500	—	560	155
Mexico	5 971	7 530	7 953	5 000	—	—	5 000	4 035
Peru	408	1 407	1 069	16	—	—	16	319
Philippines	1 056	1 257	635	300	33	252	585	179
Taiwan	314	928	255	100	100	46	246	—
Other	5 677	6 204	4 830	348	562	368	1 278	1 327
OPEC countries	11 045	11 870	12 505	1 317	957	155	2 429	3 198
Ecuador	1 209	934	815	—	—	—	—	270
Indonesia	1 435	725	1 035	1 000	45	—	1 045	308
Nigeria	1 330	1 802	2 042	—	33	—	33	160
United Arab Emirates	101	363	93	—	690	—	690	—
Venezuela	6 715	7 559	6 799	237	—	—	237	2 294
Other	255	497	1 721	80	189	155	424	166
Communist countries	**2 809**	**1 791**	**765**	—	**200**	**18**	**218**	**80**
China	181	370	43	—	—	—	—	—
East Germany	303	470	8	—	—	—	—	—
Hungary	550	550	340	—	200	18	218	—
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	—	—	—	—	80
International organizations[c]	**429**	**302**	**150**	—	**21**	—	**21**	**150**
TOTAL	**77 392**	**133 354**	**84 226**	**10 090**	**10 957**	**3 802**	**24 849**	**22 340**

[a] includes multinational organizations
[b] includes COMECON institutions
[c] includes regional development organizations
[p] preliminary
[r] revised

International bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982						1983	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
U.S. companies:											
U.S. dollar	10.13	11.76	12.70	13.33	13.04	12.92	11.63	11.32	11.28	10.46	10.24
Swiss franc	6.61	7.27	7.30	6.32	6.12	5.94	5.74	5.74	5.76	5.63	5.72
European companies:											
U.S. dollar	10.93	12.42	14.29	14.15	13.81	13.73	12.81	12.37	12.45	11.60	11.37
German mark	7.55	8.79	9.36	8.28	8.32	8.24	8.23	8.31	8.17	8.15	7.98
Governments:											
U.S. dollar	10.66	11.83	13.59	13.78	13.41	13.30	12.62	12.00	12.51	12.07	11.25

New international bond issues*

new issues in period, in millions of dollars

	1980	1981	1982	1983			Jan-Mar	
				Jan	Febr	Marp	1983	1982
By type:								
Eurobonds, total	**23 970**	**31 616**	**49 839**	**6 819**	**3 712**	**2 404**	**12 935**	**16 013**
by category of borrower								
U.S. companies	4 107	6 178	12 596	853	100	445	1 398	4 236
Foreign companies	9 032	12 882	13 231	1 474	1 528	811	3 813	3 569
State enterprises	5 839	7 496	13 529	2 258	1 139	876	4 273	4 581
Governments	3 045	2 629	7 107	1 829	603	150	2 582	2 781
International organizations	1 947	2 431	3 376	405	342	122	869	846
by currency of denomination								
U.S. dollar	16 427	26 830	42 930	5 703	2 793	1 744	10 240	13 976
German mark	3 607	1 277	2 487	560	493	336	1 389	745
Dutch guilder	1 043	529	645	113	74	74	261	126
Canadian dollar	279	634	1 181	85	41	139	265	651
European composite units	65	309	1 301	344	226	66	636	72
Other	2 549	2 037	1 295	14	85	45	144	443
Foreign bonds outside the United States, total	**14 521**	**13 817**	**19 879**	**3 009**	**2 543**	**1 639**	**7 191**	**6 289**
by category of borrower								
U.S. companies	307	592	1 971	102	184	15	301	667
Foreign companies	3 157	3 384	4 184	1 253	941	833	3 027	1 167
State enterprises	2 830	3 701	5 429	419	654	175	1 248	1 593
Governments	4 086	2 762	3 494	281	447	442	1 170	1 241
International organizations	4 141	3 378	4 801	954	317	174	1 445	1 621
by currency of denomination								
German mark	4 839	1 310	2 745	626	131	142	899	861
Swiss franc	7 617	8 285	11 129	2 014	1 797	977	4 788	3 672
Dutch guilder	259	481	957	37	131	205	373	309
Japanese yen	1 088	2 457	3 418	218	484	294	996	1 191
Other	718	1 284	1 630	114	—	21	135	82
Foreign bonds in the Unites States, total	**3 429**	**7 552**	**6 096**	**39**	**975**	**254**	**568**	**1 753**
by category of borrower								
Canadian entities	2 136	4 630	3 330	9	575	104	388	1 225
International organizations	550	1 375	1 700	—	400	—	—	400
Other	743	1 547	1 066	30	—	150	180	28
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**61 142**	**8 438**	**6 154**	**3 839**	**18 431**	**19 158**
Australia	539	991	2 167	257	116	—	373	546
Austria	1 859	1 557	1 668	70	86	250	406	761
Canada	3 797	10 648	11 909	575	1 112	492	2 179	3 971
Denmark	1 125	695	1 019	292	138	49	479	475
Finland	392	672	815	156	50	—	206	261
France	2 820	3 156	7 393	1 850	828	299	2 977	2 552
Italy	904	1 108	1 746	150	83	—	233	547
Japan	5 309	6 928	8 213	1 788	1 570	999	4 357	2 247
Netherlands	1 585	630	865	56	37	42	205	117
New Zealand	293	1 107	1 375	—	184	155	339	475
Norway	892	530	832	24	176	—	200	52
Sweden	3 244	2 050	2 729	1 381	398	204	1 983	1 147
United Kingdom	1 733	1 408	1 281	55	69	112	236	46
United States	5 587	6 770	14 567	955	284	460	1 699	4 903
Developing countries	**2 485**	**4 769**	**4 930**	**70**	**17**	**162**	**249**	**1 860**
Non-OPEC countries	1 942	4 338	3 890	70	17	125	212	1 705
Brazil	349	60	91	—	—	—	—	73
Korea	68	323	172	70	—	42	112	92
Mexico	544	3 012	1 919	—	—	—	—	1 045
OPEC countries	543	431	1 040	—	—	37	37	—
Venezuela	398	291	385	—	—	—	—	—
Communist countries	**65**	**75**	**65**	—	—	—	—	**45**
International organizations	**6 638**	**7 163**	**9 677**	**1 359**	**1 059**	**296**	**2 714**	**2 467**
TOTAL	**41 920**	**52 985**	**75 814**	**9 867**	**7 230**	**4 297**	**21 394**	**23 530**

*Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.

Central bank discount rates

	1979	1980	1981	1982				Current	
	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	end Dec	Mar 30 1983	effective since
United States	12.00	13.00	12.00	12.00	12.00	10.00	8.50	8.50	Dec 15, 82
Canada	14.00	17.36	14.66	15.11	16.58	12.98	10.26	9.51	Mar 23, 83
Japan	6.25	7.25	5.50	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	17.00	14.00	14.37	13.00	12.50	10.00	10.00	10.56	Mar 15, 83
Belgium	10.50	12.00	15.00	13.00	14.00	12.50	11.50	11.00	Mar 24, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	0.00	7.50	7.50	7.50	7.50	7.00	5.00	4.00	Mar 16, 83
Italy	15.00	16.50	19.00	19.00	19.00	18.00	18.00	18.00	Aug 25, 82
Netherlands	9.50	8.00	9.00	8.00	8.00	7.00	5.00	3.50	Mar 16, 83
Austria	3.75	6.75	6.75	6.75	6.75	6.25	4.75	3.75	Mar 16, 83
Denmark	11.00	11.00	11.00	11.00	11.00	11.00	10.00	8.50	Mar 22, 83
Finland	8.50	9.25	9.25	9.25	8.50	8.50	8.50	8.50	Jun 1, 82
Ireland	16.40	12.75	17.15	18.30	18.30	14.55	14.35	14.35	Dec 23, 82
Norway	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	Nov 30, 79
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.00	12.00	11.00	10.00	10.00	10.00	10.00	9.00	Jan 21, 83
Switzerland	2.00	3.00	6.00	5.50	5.50	5.00	4.50	4.00	Mar 16, 83
Argentina	89.90	87.01	98.50	99.87	87.23	128.54	128.54	128.54	Sep 30, 82
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	7.00	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	11.00	13.00	14.00	14.00	14.00	14.00	13.00	13.00	Sep 30, 82

Day-to-day money rates

monthly averages

	1979	1980	1981	1982						1983	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	13.78	18.90	12.37	12.59	10.12	10.31	9.71	9.20	8.95	8.68	8.53
Canada	13.83	15.61	14.53	16.16	15.03	13.58	12.10	10.91	10.63	9.75	9.60
Japan	8.02	9.49	6.70	7.19	7.18	6.99	6.92	6.68	6.92	6.64	6.57
Australia	7.84	9.51	12.84	13.39	15.09	13.23	13.27	12.52	11.04	9.84	10.70
United Kingdom	14.87	13.00	9.13	10.10	9.75	9.80	8.56	8.33	6.70	10.81	10.81
Belgium	10.65	9.68	12.78	13.13	11.76	10.52	11.13	10.51	9.43	9.80	9.97
France	12.17	10.87	15.46	15.05	14.58	14.11	13.91	13.18	12.88	12.71	12.77
Germany	9.15	9.13	10.65	9.03	8.74	7.96	7.48	7.02	6.07	5.91	5.70
Italy	16.00	17.50	20.63	20.13	19.69	18.63	18.63	18.86	19.00	19.00	19.00
Netherlands	15.67	8.37	10.67	8.94	8.63	7.33	7.23	6.13	5.31	5.10	4.96
Austria	8.50	11.50	7.50	10.50	9.25	7.75	6.25	6.38	6.00	5.88	5.88
Finland	13.53	12.50	11.30	11.50	11.50	11.45	11.70	11.50	11.50	11.00	12.00
Ireland	16.88	13.31	16.88	18.25	15.62	16.00	13.13	15.50	14.54	15.38	13.94
Spain	9.61	16.74	18.73	17.29	13.96	13.78	20.54	23.18	20.30	16.60	17.20
Sweden	11.99	11.41	13.82	14.98	14.47	15.22	13.30	12.51	8.63	4.62	10.55
Switzerland	1.25	5.75	3.38	1.50	1.50	2.25	1.87	1.38	1.25	1.38	1.50
Argentina	76.22	70.84	84.93	80.72	101.34	127.09	135.66	132.70	155.32	154.38	159.38
Brazil	37.51	62.71	103.74	104.43	130.32	108.40	125.22	136.85	150.42	119.23	n.a.
Hong Kong	14.19	14.05	10.75	11.75	8.25	9.37	11.05	11.13	9.13	7.13	10.40
Korea	15.00	14.82	14.40	13.39	13.23	13.39	13.58	13.75	13.84	13.25	13.30
Philippines	16.25	15.70	14.70	8.20	10.56	12.68	13.01	10.90	16.12	11.43	n.a.
Singapore	10.17	10.23	3.96	6.44	7.56	5.67	6.16	5.34	11.45	n.a.	n.a.
South Africa	3.81	5.80	12.34	14.94	14.72	14.85	14.45	13.50	12.90	9.70	9.57
Eurodollars	14.41	19.22	12.29	12.57	10.10	10.52	9.88	9.40	9.15	8.72	8.73

Treasury bill rates

bond-equivalent yields, at or near end of month

	1979	1980	1981	1982						1983	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	12.39	14.87	11.90	10.63	8.01	7.64	8.13	8.10	8.15	8.23	8.03
Canada	13.66	17.01	14.41	15.25	13.70	12.73	11.21	10.72	9.80	9.58	9.23
Japan	5.68	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	9.31	12.17	13.27	14.61	14.43	11.62	13.72	12.98	9.39	11.05	14.95
United Kingdom	16.45	13.45	15.31	11.58	10.26	9.99	9.14	8.94	9.90	10.58	10.73
Belgium	14.40	12.75	16.00	14.50	13.75	12.75	12.75	12.25	12.25	12.25	12.25
Ireland	16.37	12.84	17.35	16.76	14.64	14.48	12.74	12.87	14.70	15.38	13.76
Italy	15.62	16.87	21.36	19.27	19.01	17.67	18.05	19.09	19.11	19.09	19.09
Netherlands	12.75	8.00	9.75	8.75	7.38	7.00	6.50	5.88	5.63	5.38	5.00
Spain	15.00	17.20	15.83	16.49	15.53	15.15	16.79	17.38	16.96	17.06	16.99
Sweden	9.74	12.87	9.20	10.25	10.25	10.26	10.26	9.20	8.18	7.14	7.14
Argentina	71.04	66.19	77.10	108.31	133.36	133.36	133.36	133.36	133.36	110.39	158.38
Brazil	31.68	110.60	110.21	122.71	131.87	135.53	132.91	132.91	n.a.	n.a.	n.a.
Korea	19.53	16.35	16.00	14.40	14.40	14.40	8.00	8.00	8.00	8.00	8.00
Mexico	17.89	27.73	33.22	53.01	55.88	49.72	43.02	51.26	57.44	n.a.	n.a.
New Zealand	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
Philippines	12.63	12.74	13.40	14.87	14.18	14.30	14.32	14.48	14.53	14.54	n.a.
Singapore	6.18	6.77	3.03	3.62	3.30	3.09	2.96	3.07	2.74	n.a.	n.a.
South Africa	4.30	6.31	14.55	17.12	16.91	16.12	16.06	15.12	14.62	12.70	9.79

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1979	1980	1981	1982						1983	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	13.70	17.62	12.78	11.98	9.61	10.26	8.68	8.68	8.81	8.29	8.30
Canada	14.15	17.50	15.25	15.70	14.20	12.95	11.65	11.00	9.95	10.00	9.40
Japan	8.01	9.80	6.30	7.02	7.22	7.05	6.89	7.06	6.80	6.51	6.69
Australia	10.30	13.00	16.00	16.95	17.00	14.10	15.50	13.80	10.65	11.30	16.00
United Kingdom	17.00	14.75	15.69	11.94	10.75	10.56	9.56	10.38	10.50	11.56	11.31
Belgium	14.45	13.10	16.00	14.75	13.90	13.00	12.85	12.50	12.35	12.35	12.25
France	12.62	11.56	15.25	14.87	14.38	13.81	13.06	12.94	12.75	12.63	12.94
Germany	8.70	10.20	10.50	9.30	8.30	8.00	7.33	7.25	6.20	5.90	5.68
Ireland	18.12	13.63	18.50	17.50	15.62	15.38	13.69	13.63	15.75	16.13	13.94
Italy	17.12	17.37	21.00	20.00	18.75	18.50	18.50	18.80	19.00	18.88	19.00
Netherlands	13.00	9.37	11.00	9.12	8.13	8.00	6.38	6.75	5.25	5.00	4.50
Spain	13.20	17.40	15.52	17.32	15.13	13.91	17.30	19.27	16.55	16.53	16.82
Switzerland	6.12	7.50	10.12	4.37	4.00	4.62	3.75	4.25	3.88	2.88	3.25
Hong Kong	14.37	17.69	14.18	12.75	10.75	10.00	11.00	11.25	10.13	8.75	8.50
Korea	19.53	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	16.00	14.25	16.05	17.25	17.50	17.75	18.00	17.25	16.75	16.25	14.00
Philippines	10.41	15.01	17.61	17.06	16.69	16.50	15.89	16.00	15.91	15.53	n.a.
Singapore	10.12	14.12	7.81	8.19	8.31	7.69	7.69	7.31	8.69	n.a.	n.a.
South Africa	4.72	7.12	15.47	18.19	17.59	17.10	17.21	15.75	15.26	13.33	10.41

Commercial bank deposit rates

at or near end of month

	1979	1980	1981	1982						1983	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	13.55	16.25	12.62	11.00	10.10	9.75	9.15	8.70	8.25	8.50	8.35
Canada	14.05	17.00	15.20	15.60	14.05	12.85	11.60	10.95	9.85	9.90	9.35
Japan	8.37	9.00	6.50	7.20	7.35	7.30	7.27	7.15	7.00	6.80	6.86
Australia	10.25	12.71	15.65	16.64	17.51	14.69	14.96	14.56	10.20	10.80	15.07
United Kingdom	16.81	14.87	15.69	11.81	10.63	10.81	9.50	10.44	10.31	11.63	11.25
Belgium	14.50	12.63	15.50	14.38	13.13	12.75	12.50	12.25	12.25	12.25	12.25
France	12.50	11.25	9.16	8.97	8.75	8.53	8.43	8.19	8.24	8.24	8.24
Germany	7.75	8.00	9.50	8.25	7.00	7.00	6.60	6.50	6.00	5.25	5.10
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	13.50	9.50	11.00	8.87	8.13	7.88	6.38	6.75	5.38	5.00	4.50
Austria	8.50	11.25	9.63	8.50	8.63	8.25	7.75	7.13	6.25	6.00	6.00
Denmark	10.00	10.00	10.00	10.00	10.00	10.00	10.00	9.00	9.00	9.00	9.00
Finland	4.25	5.00	5.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Ireland	17.87	13.63	18.38	17.37	15.50	15.25	13.63	13.50	15.25	16.00	13.75
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	4.50	11.78	12.02	12.44	12.33	13.04	13.03	12.53	12.23	n.a.
Sweden	8.75	9.75	10.25	9.50	9.50	9.50	9.50	9.50	9.50	8.50	8.50
Switzerland	4.75	7.50	8.75	3.50	3.50	3.25	3.00	3.00	3.00	2.00	2.00
Argentina	72.64	72.00	86.76	60.83	60.83	85.16	85.16	103.42	103.42	127.75	121.66
Brazil	55.55	96.49	110.05	113.90	99.00	103.18	107.53	122.51	118.26	116.21	n.a.
Hong Kong	9.25	13.00	12.50	11.00	9.00	9.00	9.00	8.50	7.50	7.50	7.50
Korea	15.00	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	16.75	26.15	31.81	50.60	53.29	49.75	45.32	45.50	52.54	59.66	n.a.
New Zealand	15.90	13.50	15.50	16.50	16.50	16.50	16.50	16.50	16.50	15.25	13.00
Philippines	10.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	10.31	13.19	7.50	7.75	8.00	7.31	7.00	7.00	8.25	n.a.	n.a.
South Africa	4.82	7.87	14.75	17.87	17.17	16.50	16.53	15.18	15.25	13.43	10.63
Venezuela	15.00	16.00	14.75	16.00	15.50	14.50	15.00	15.00	15.50	16.00	16.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1979	1980	1981	1982						1983	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	15.25	21.50	15.75	15.50	13.50	13.00	12.00	11.50	11.50	11.00	10.50
Canada	15.00	18.25	16.50	17.25	15.50	15.00	13.75	13.00	12.50	12.00	11.50
Japan	6.51	8.16	6.95	6.33	6.32	6.31	6.31	6.29	6.30	6.30	6.30
Australia	10.75	13.50	15.75	17.50	17.50	17.00	16.50	16.50	15.00	14.00	14.00
United Kingdom	18.00	15.00	14.50	12.00	10.50	10.00	9.50	10.00	10.00	11.00	11.00
Belgium	15.25	15.75	18.00	17.50	16.75	16.00	16.00	15.50	15.50	15.50	15.50
France	12.50	12.25	14.00	13.75	13.25	13.25	12.75	12.75	12.25	12.25	12.25
Germany	9.75	11.50	13.00	11.50	11.50	10.50	10.50	10.00	8.75	8.75	8.75
Italy	19.50	20.50	22.50	21.75	20.75	20.75	20.75	20.75	20.75	20.75	20.00
Netherlands	15.00	10.75	12.00	10.00	8.75	8.75	8.00	7.25	6.25	6.25	6.00
Austria	8.50	12.50	13.50	12.25	12.25	11.50	11.50	11.75	11.75	11.00	11.00
Denmark	13.75	13.75	15.00	15.50	15.50	15.50	15.50	14.00	14.00	14.00	14.00
Finland	9.06	9.83	9.84	9.04	8.99	8.97	8.97	8.95	8.95	8.99	n.a.
Ireland	16.00	14.50	17.25	19.25	16.50	16.50	16.50	16.50	16.50	16.50	16.50
Norway	11.00	12.50	13.75	14.00	14.00	14.00	14.00	14.50	14.50	14.50	14.50
Spain	9.00	18.50	17.04	19.50	17.82	16.04	18.35	20.39	19.00	18.34	18.48
Sweden	10.75	11.75	13.50	12.50	12.50	12.50	12.50	12.50	12.50	11.50	11.50
Switzerland	5.00	5.75	8.00	7.00	6.50	6.50	6.50	6.50	6.00	6.00	6.00
Argentina	80.00	77.00	92.60	73.00	73.00	97.33	97.33	109.50	109.50	139.92	133.83
Brazil	59.60	96.45	138.09	143.19	151.80	151.80	151.80	162.30	166.49	162.56	n.a.
Hong Kong	14.50	17.00	16.00	14.00	12.00	12.00	12.00	11.00	10.50	10.50	10.50
Korea	18.50	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	19.00	24.25	31.81	43.23	46.42	47.88	45.99	45.51	46.12	50.29	52.12
New Zealand	11.75	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	16.00	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	9.50	13.60	11.83	10.70	10.25	10.03	9.75	9.33	9.33	n.a.	n.a.
South Africa	9.50	9.50	17.00	20.00	20.00	20.00	20.00	18.00	18.00	17.00	16.00
Venezuela	13.00	15.00	15.50	17.00	16.50	16.00	16.50	16.50	17.00	17.50	18.00

Domestic government bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982						1983	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	10.20	11.46	14.33	13.68	12.46	11.50	10.79	10.74	10.61	10.98	10.57
Canada	11.32	12.69	15.27	15.62	13.96	13.48	12.63	12.18	11.69	12.28	11.80
Japan	8.63	9.04	8.32	8.49	8.41	8.46	8.50	8.32	7.76	7.89	8.07
Australia	10.08	13.00	15.00	16.50	16.25	14.50	14.25	14.40	13.00	12.75	14.75
United Kingdom	13.83	13.05	15.02	13.05	11.20	10.74	10.04	10.95	10.62	11.56	10.88
Belgium	11.13	13.04	13.99	13.13	13.13	13.20	13.23	12.87	12.66	12.48	12.60
France	12.59	14.31	16.44	15.96	15.78	15.76	15.81	15.79	15.40	14.99	14.25
Germany	7.91	9.19	9.71	9.14	8.79	8.00	8.27	8.19	7.90	7.93	7.71
Italy	14.00	16.23	21.39	20.77	20.11	19.18	19.38	19.90	19.62	19.33	19.18
Netherlands	9.29	10.48	11.28	10.50	10.24	10.00	9.26	8.92	8.16	8.24	8.06
Austria	8.20	9.62	10.37	10.01	10.04	9.59	9.24	8.99	8.81	8.32	8.24
Denmark	18.28	19.98	20.91	22.29	22.72	22.83	21.16	20.81	20.14	18.55	15.89
Finland	9.58	10.42	10.98	10.74	10.59	10.64	10.62	10.68	10.64	10.58	10.70
Ireland	16.64	15.63	18.28	17.33	15.93	15.17	13.95	15.53	14.54	14.98	n.a.
Norway	10.04	10.44	12.37	12.95	13.16	13.27	13.29	13.32	13.32	12.75	13.00
Spain	n.a.	n.a.	12.50	12.50	12.50	12.50	12.75	12.75	12.75	12.75	12.75
Sweden	11.22	12.61	12.80	13.18	13.23	13.27	13.73	13.09	13.01	13.10	12.83
Switzerland	4.20	4.63	5.40	4.90	4.64	4.43	4.31	4.27	4.22	4.22	4.23
Argentina	47.94	36.84	107.98	151.14	309.96	188.74	242.86	135.02	159.88	n.a.	n.a.
New Zealand	12.98	12.99	12.55	12.97	12.73	12.94	12.82	12.96	12.84	n.a.	n.a.
Philippines	13.20	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	9.32	11.81	13.62	14.70	14.09	12.72	12.19	11.84	11.69	10.95	12.20
Venezuela	7.29	7.39	12.50	13.25	13.25	13.25	13.50	14.00	15.00	15.00	15.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982						1983	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	10.75	13.00	15.50	15.25	13.50	12.88	12.00	11.75	11.75	11.88	11.53
Canada	12.07	13.62	16.48	17.27	15.99	14.78	13.61	13.58	13.05	13.54	12.99
Japan	8.34	8.60	7.70	7.90	7.99	8.05	8.10	8.10	7.55	7.25	7.26
Australia	11.65	14.25	16.50	17.75	17.50	16.75	16.75	16.75	15.00	15.00	16.00
United Kingdom	14.96	14.21	16.55	13.86	12.53	12.51	11.68	12.34	12.34	12.85	12.69
France	12.92	15.23	17.33	16.67	16.61	16.83	16.42	16.33	15.91	15.64	15.12
Germany	8.20	9.50	10.50	9.50	9.40	9.30	8.90	8.50	8.20	7.90	7.70
Netherlands	9.95	10.71	11.03	10.65	10.32	10.19	9.34	8.49	7.80	8.01	7.92
Norway	10.53	11.24	13.36	12.90	14.14	14.94	14.46	11.69	14.13	13.75	13.75
Spain	14.20	14.82	14.76	17.42	17.86	18.36	17.90	17.33	17.10	16.49	16.72
Sweden	10.21	11.95	12.94	12.90	12.92	12.97	13.16	13.33	13.37	13.39	13.06
Switzerland	5.53	5.63	6.60	6.05	6.12	6.08	5.96	5.89	5.92	5.89	5.88
Korea	27.80	28.20	27.00	13.90	14.00	15.00	15.30	15.90	15.90	15.10	15.00
Venezuela	14.55	16.15	17.00	18.00	17.50	17.50	17.75	18.00	18.00	18.00	18.00

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World Financial Markets

Morgan Guaranty Trust Company of New York

May 1983

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- Measurement problems, 4
- Policy implications, 5

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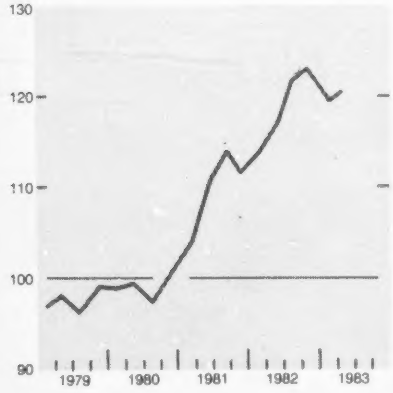
Chart 1

Real effective dollar exchange rate

index, 1975–79=100



The strong dollar

The dollar has been remarkably strong this year. From early January through early May it has risen over 3% against the German mark, 10% against the French franc, and 2% against the pound sterling. Until this month at least, it was also strong against the yen.

Last autumn, when the dollar was weakening, many forecasters predicted the dollar would fall further during 1983. Following the dollar's real effective appreciation, of 11% in 1981 and a further 9% in 1982 (see Chart 1), the prospect of dollar weakness was welcome to many: to U.S. industry, which had sustained huge job losses in such sensitive sectors as steel and autos; to foreign governments, which could relax policies designed to limit previous currency depreciation; and to developing countries, most of whose external debt is dollar denominated.

The dollar's strength nonetheless has positive features. Currency appreciation has contributed significantly to the impressive reduction in U.S. inflation since 1980 and remains a powerful force both for productivity improvement and for price and wage discipline. Capital inflows from abroad lessen "crowding out" pressures on U.S. financial markets. At the same time, foreign firms are better able to win business in U.S. and world markets, thanks to their improved competitive position.

The dollar may well stay strong for some time to come. The structural deficit in the U.S. budget is one reason to expect that foreign capital inflows will continue. The attraction of U.S. investment in a world of increased political and economic uncertainty is another. Also pointing to sustained dollar strength is the smaller-than-expected weakening of the U.S. current account. Not only is the deficit running well below first forecasts, there also is reason to believe that measurement problems cause the published U.S. balance of payments data to exaggerate the true deterioration in the U.S. external position.

Against the market forces that sustain a strong dollar there is only so much that policymakers can do to bring about a weaker dollar. Exchange market intervention, the establishment of target zones, or other reforms of the exchange rate system can accomplish little when at odds with domestic policies or performance. Greater conviction about a permanently low inflation outlook for the United States would help, by permitting further decline in U.S. interest rates. Less divergent fiscal policies on the part of

Chart 2

Current account balances

seasonally adjusted, at annual rates, in billions of dollars

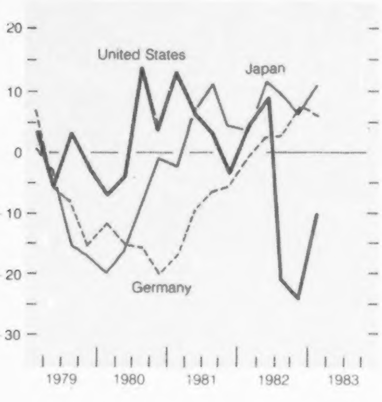
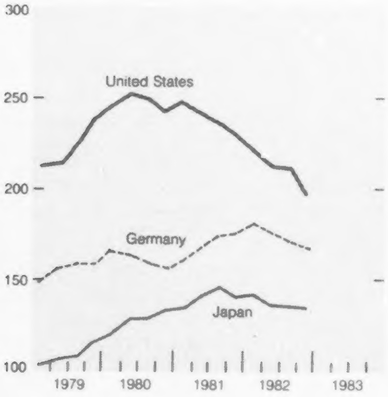


Chart 3

Export volume

seasonally adjusted, at annual rates, in billions of dollars at 1982 constant prices



the United States and Japan would go some way toward remedying the most acute currency misalignments as judged by "fundamental" criteria. There should be no illusion, however, that appropriate macroeconomic policy adjustments can eliminate excessive dollar strength, nor that bringing the dollar down will remedy the malaise of the industrial world.

U.S. current account trends

Projections of severe deterioration in the U.S. current account position contributed significantly to the widely held expectation late last year that the dollar would weaken in 1983. Following a recorded $5 billion surplus in 1981, the United States reported a current account deficit of $8 billion for 1982. By contrast, Germany's current account swung from a $7 billion deficit to a surplus of $3 billion. Japan's surplus rose from $5 billion to $7 billion. This divergence accelerated in the second half of 1982 (see Chart 2). By the final quarter, the U.S. current account deficit was running at an annual rate of more than $24 billion as massive, worldwide inventory liquidation, together with the financial difficulties of Latin American and other developing countries, led to a drastic decline in U.S. exports (see Chart 3).

When the very poor U.S. figures came through in the closing months of 1982, most forecasters took a bleak view of the U.S. current account outlook for 1983. The OECD projected a $31 billion deficit, while some U.S. administration guesstimates were substantially higher. But trade figures for the first quarter of 1983 actually showed a major improvement: the annualized merchandise deficit on the balance of payments basis narrowed from the $48 billion in the preceding three months to $34 billion, corresponding to a current account deficit of about $10 billion, at an annual rate. This prompted a significant reassessment of the U.S. balance of payments performance in 1983 as a whole. Many forecasters now expect a current account deficit of $25 billion (see Table 1) — still a sizable deterioration from the $8 billion deficit of 1982, but not as extreme as had been predicted earlier.

The improved outlook reflects several factors:

Cutback in petroleum imports. The volume of U.S. oil imports plunged before the official price cuts — to 3.7 million barrels per day in February and March, compared with an average of 5.26 million barrels per day in 1982. The February-March figures were abnormal. As shown in Table 2, U.S. oil imports for all of 1983 could average 5 million bpd. Oil prices remain high enough to suggest a 1% decline in consumption and a 3%-4% decline in imports this year, even while real GNP expands a projected 2.7%. Using an average $29 per barrel FAS import price, the gross U.S. oil import bill could be $53 billion, $7.5 billion below the 1982 cost. On a net basis, outlays for oil and other fuels would likewise shrink, to perhaps $45 billion (see Chart 4).

Increased protection. Measures designed to protect U.S. industry, such as Japan's agreement to limit auto shipments to the United States, mean that U.S. imports will respond less vigorously to the present domestic recovery and a strong dollar than previous historical relationships would suggest. Although manufactures imports soared in the first quarter of 1983 as the inventory cycle shifted, the volume of nonpetroleum imports may advance only 4% for all of 1983. This contrasts with their 8%

Table 1

U.S. trade and current accounts

billions of dollars

	1981	*1982*	*1983*
Customs data, FAS valuation			
Merchandise trade balance	—27.3	—31.8	—46
Agricultural and raw materials	26.1	21.0	20
Fuels	—71.1	—52.7	—45
Manufactures	17.7	0.0	—19
BOP basis			
Merchandise exports	236.3	211.0	205
Merchandise imports	—264.1	—247.3	—255
Trade balance	—27.9	—36.3	—50
Net services & transfers	32.4	28.2	25
Direct investment income	24.1	18.1	17
Other investment income	9.0	10.7	11
Military	—1.5	0.6	—1
Travel	—0.8	—2.7	—4
Other services	8.2	9.4	10
Transfers	—6.6	—7.9	—8
Current account balance	4.5	—8.1	—25

Table 2

U.S. oil demand and supply

millions of barrels per day

	1981	*1982*	*1983*
Consumption	16.06	15.25	15.1
Exports	0.60	0.82	0.9
Change in inventories	0.16	—0.15	—0.2
Total demand	16.82	15.92	15.8
Domestic supply	—10.82	—10.88	—10.9
Gross imports (DOE basis)	6.00	5.04	4.8
*Gross imports (BOP basis)**			
Volume	6.11	5.26	5.0
Average price ($ per barrel)	34.28	31.48	29.0
Value ($ billion)	76.66	60.46	53.0

***Figures on the balance of payments basis include imports through the Virgin Islands excluded from Department of Energy data.**

gain in 1981, the last time the U.S. economy experienced a calendar-year expansion.

Stronger U.S. export prospects. The value of U.S. shipments dropped 10.7% last year; between the second and fourth quarters of 1982 merchandise earnings collapsed at a 24% annual rate. The drop in U.S. exports was divided about equally between those to industrial countries and those to developing countries, with shipments to Latin America falling disproportionately (see Table 3). The value of U.S. exports began to rise again in the first quarter of 1983. Agricultural shipments were up, although official forecasts look to earnings of around $35 billion for 1983 as a whole, down from 1982's $37.4 billion. The price outlook has firmed a little in recent months, but the overhang of very high world grain stocks will hold average U.S. export prices below last year's levels.

More encouraging, economic recovery abroad is now apparent. In the first quarter, exports to industrial countries edged upward. Sales to Canada more than recouped their downturn of late 1982, and economic recovery in Canada — the single largest U.S. export market — should outpace that in the United States. Exports to Western Europe also have picked up. Britain and Germany appear to have begun a firmly based economic upswing. Import demand elsewhere in Europe will be subdued. U.S. exports to Japan are still soft, and the Japanese market offers no very positive promise. Overall, the economic recovery in other OECD countries will fall short of the U.S. upswing this year, but will offer improving opportunities for U.S. exporters as capital spending revives abroad.

U.S. exports to developing countries in the first quarter of 1983 were up marginally from the year-end 1982 level. While well below year-earlier performance, sales to non-OPEC LDCs — even to Mexico — rose distinctly. OPEC members, however, bought substantially less from the United States. In general, the ability of LDCs to import from the United States and other industrial countries appears to have reached its weakest point during this past winter. It will strengthen as OECD recovery continues, provided there is some amelioration of the debt servicing troubles concentrated in Latin America.

Price and cost competitiveness. Since early 1982, judged by wholesale prices, U.S. firms have been at a 20% price disadvantage relative to their competitive standing in the second half of the 1970s. Evaluated on the basis of unit labor costs, their relative disadvantage approaches 30%. But while such large shifts could imply that major losses of U.S. export market share are still to come, there are several reasons to believe that future losses may be limited. Contrary to earlier experience, for example, some econometric studies indicate that U.S. exports now adjust swiftly to changes in relative price competitiveness. U.S. firms have also been unusually successful in achieving large cost savings during the recent recession. And British experience shows that a prolonged period of extreme currency appreciation does not necessarily cause such a severe loss of export market share as may be suggested by simple extrapolation of trade responses to small changes in competitiveness.

Invisible earnings. Invisible transactions will continue to offset a major share of the trade deficit. Last year, for the first time in a decade, the services and transfers surplus diminished significantly, from $32 billion in 1981 to $28 billion in 1982 and to an annual rate of $24 billion in the final quarter (see Chart 5).

Chart 4

U.S. merchandise trade

FAS/FAS customs basis
seasonally adjusted, at annual rates
in billions of dollars

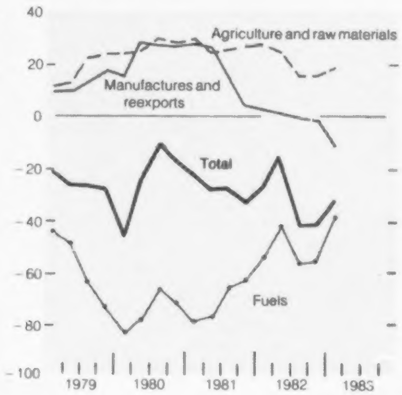


Table 3

U.S. trade balances by area

customs data, FAS valuation
billions of dollars
seasonally adjusted annual rates

	1981 year	1982 fourth quarter	1983 first quarter
Industrial countries	—5.9	—20.4	—21.1
Canada	—6.9	—13.0	—11.3
Japan	—15.8	—13.2	—18.8
Western Europe	13.5	3.6	8.1
Developing countries	—27.4	—20.4	—12.7
*OPEC**	—27.9	—5.0	—2.2
*Non-OPEC**	0.5	—15.4	—10.5
Latin America	7.3	—10.9	—7.6
Mexico	4.0	—8.6	—6.9
*Other**	—6.8	—4.5	—2.9
Socialist countries	4.5	1.5	2.9
Total	—27.3	—40.7	—32.4

*Not seasonally adjusted.

The chief component of the invisibles surplus, net income from direct investment, shrank from $24 billion in 1981 to $18 billion in 1982. It will probably decline again in 1983, as reduced petroleum-sector earnings, at least for the first half, offset improving manufacturing profits, whose strength will depend on the vigor of economic recovery in Canada and Western Europe. At the same time, earnings on foreign direct investment in the United States will be rising sharply as the domestic upswing gathers pace.

Somewhat more promising are the prospects for other investment income. Net interest earnings climbed $1.7 billion last year, surpassing $10 billion for the first time. The rapid growth of net interest-earning assets last year suggests some further rise in earnings for 1983. Other principal categories of invisibles are likely to deteriorate this year. The strong dollar and rising personal incomes point to a marked widening of the travel gap. Military sales are expected to turn down while expenditures rise. Miscellaneous services should hold their own, but there will be some increase in private remittances and government transfers from the United States. Altogether, U.S. net invisible earnings in 1983 will likely be almost as much as last year's.

Measurement problems

The reported U.S. current account deficit, taken by itself, is a misleading summary of balance of payments forces affecting the dollar's exchange market performance and prospects. Transactions not captured in the current account balance have plainly been highly supportive of the dollar. Indeed, statistical discrepancies in the payments accounts of the United States and other countries lead to the suspicion that the U.S. current account deficit is seriously overstated in the published figures. The overstatement could be as much as $20 billion, if U.S. reporting is no more accurate than the statistics of other countries. Restatement by such a magnitude would place last year's U.S. current balance in surplus of $12 billion, rather than the $8 billion deficit reported. Similarly, this year's projected deficit of $25 billion on a reported basis would be of trivial dimension on an underlying basis.

Evidence for such a deficiency in U.S. statistics can be drawn from the global inconsistency of nationally reported current account data. For the world as a whole, the sum of surpluses and deficits does not equal zero, as it should if all exports by one country are entered as imports by another. There was a residual deficit last year of $80-$100 billion, up sharply from about $50 billion in 1981. This negative residual, which has been growing in most years since 1973, is caused mainly by a statistical undervaluation of service exports. Exports of transportation services and investment income, in particular, are recorded poorly.

Thus, the recorded current account positions of many countries, particularly of large service exporters such as the United States, overstate their underlying deficit. The United States accounted for about 21% of world exports of services in 1981, compared with Germany's 8% and Japan's 6%. The United States not only has a larger economy, it also has proportionately more service exports, suggesting the probability of greater distortion in its measured current account. Assuming that reporting in the United States is no more and no less perfect than elsewhere, a pro rata share of the world current account residual would have added

Chart 5

U.S. trade, services and transfers, and current account balance

seasonally adjusted, at annual rates in billions of dollars

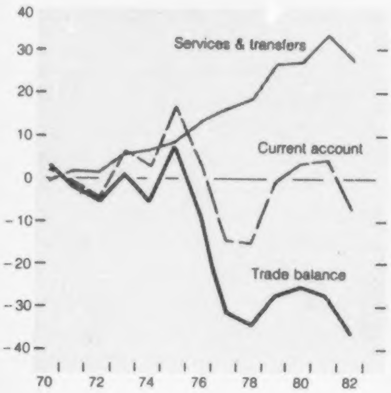


Table 4

U.S. balance of payments

billions of dollars

	1981	1982
Current account	+4.5	—8.1
Private capital flows of which:	—25.8	—26.0
Direct investment	+12.6	+11.6
*Bank-reported flows**	—43.3	—43.8
*Official capital flows**	—4.4	—7.7
Errors and omissions	+25.8	+41.9

*Changes in bank-reported liabilities to foreign official institutions are included in official capital flows.

$15-$20 billion to recorded U.S. exports of goods and services in 1982. The recording error could be even larger.

The dollar also benefits from capital inflows into the United States. For example, in 1982 there was a net inflow of $12 billion into the United States on direct investment account (see Table 4). Before 1981 there had been a net outflow. The reversal owes something to the increased borrowing from abroad by U.S. companies through their overseas financing affiliates. More important, U.S. corporations are investing much less abroad than they were — some have even been liquidating foreign assets. At the same time, foreign companies are undertaking substantial direct investment in the United States. These trends can be traced, in part, to the political and economic attraction of investing in the United States as a safe haven despite the still-depressed level of U.S. economic activity. For similar reasons, but also reflecting the strength of U.S. stock and bond markets, the United States attracted a net inflow of $5 billion in 1982 through private portfolio transactions. This inflow soared to a near-$10 billion annual rate in January and February of this year.

By contrast, bank-related capital transactions last year showed net outflows from the United States of almost $44 billion. The bulk of these net outflows consists of transactions between domestic entities and the Euromarkets and of funds recycled into developing countries. Most such transactions are in dollars and thus lack direct impact on exchange markets. They nevertheless alter asset and liability positions and can thereby influence currency behavior indirectly, especially when exchange rate expectations change.

All reported capital flows into or out of the United States show a large net outflow, $34 billion in 1982. Yet if the current account balance were actually in deficit by $8 billion, as reported, its financing must have attracted net capital inflows. Even if the underlying current balance were in surplus, the net capital outflows that were reported would have required partially offsetting, unrecorded capital inflows. These do indeed occur, but are hidden in the huge statistical discrepancy in the U.S. balance of payments accounts — the "errors and omissions" item. By double-entry accounting principles, the total of all accounts — current account flows, private capital flows, and official capital flows — must be zero. This is accomplished through use of the errors and omissions item as a balancing entry.

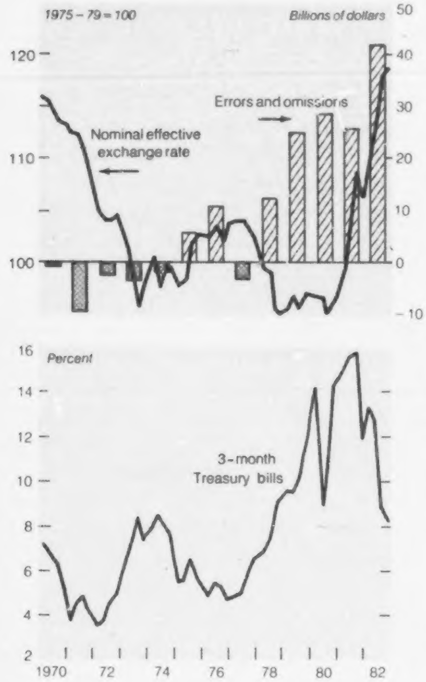
As Table 4 indicates, the U.S. errors and omissions item for the past few years has been extraordinarily large, reaching a positive $42 billion in 1982. A $20 billion overstatement of the U.S. current account deficit last year would explain roughly half. The remainder must definitionally be ascribed to unrecorded capital inflows. Chart 6 shows that the large inflows on the errors and omissions item correlate with the rise in U.S. interest rates. While unrecorded flows by their nature cannot be documented with precision, it is not difficult to speculate upon how capital can enter the United States without entering the official statistics. If, as many suppose, unrecorded flows are attracted by high interest rates and safe haven motives, there is every reason to expect further inflows that will buttress dollar strength while favorable interest differentials and foreign uncertainties persist.

Policy implications

The better-than-expected U.S. cur-

Chart 6

The dollar, errors and omissions in the U.S. balance of payments, and U.S. interest rates



rent account performance and the continued inflow of capital suggest that the dollar will remain strong by the standards of the 1970s. To some degree, this is desirable. After all, the world's principal transactions and investment currency should be attractive to hold. But there is also the risk that worldwide uncertainties and U.S. budget deficits may lead to even greater capital inflows, driving the dollar still higher. This would increase chances of a precipitous decline in the dollar at some later stage, a possibility that would be unsettling to financial markets and foreign governments. Meanwhile, the threat of dollar appreciation may cause foreign monetary authorities to take a more restrictive tack than they might otherwise choose on domestic grounds, with disheartening implications for the recovery of output and employment.

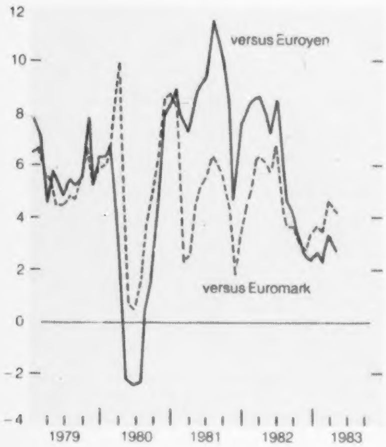
An excessively strong dollar has other drawbacks. Relationships between the United States and other governments are not made easier by the foreign view of the world's wealthiest nation draining foreign savings to finance its current account deficit and, thus, a portion of its outsize budget deficit. Worse, a strong dollar intensifies the competitive problems of U.S. industries and heightens their call for trade protection. When espoused by the leading Western nation, protectionism is more readily justified by other countries less committed to a liberal trade order. The spread of protectionism is a fundamental obstacle to enduring world prosperity.

Some moderation of the dollar's recent strength would be desirable. The major nations should seek to resolve their policy differences in ways that encourage such moderation. Stepped-up, coordinated central bank intervention in exchange markets would not be an adequate solution. Even the most ardent supporters of exchange intervention now see intervention as only a tool to stabilize "disorderly" markets, rather than a means of affecting the overall relationship of rates. While the evidence that a modicum of intervention can stabilize exchange markets is mixed, there is little support for the notion that official intervention can bring exchange rates into satisfactory alignment for a protracted period of time. The seven-nation study commissioned after last year's Versailles summit meeting discerned a short-run influence of intervention on exchange rates, but concluded that long-term stability also requires domestic policy changes. Thus, intervention should not be rejected dogmatically, as U.S. policymakers have sometimes done in the past. But no matter how successful in containing short-run volatility, intervention should not impede fundamental adjustments when they are needed.

Another proposed innovation in world exchange rate management is the use of target zones to define permissible ranges of variation among the major currency groups — in effect, a global EMS. But target zones pose a host of problems. Foremost is the difficulty of identifying and agreeing on workable criteria for setting appropriate zones. Since discontent with floating exchange rates focuses on their volatility and alleged deviation from "fundamental" values, indicators of such economic fundamentals as inflation rates and current account balances would likely be the principal determinants of the target zones. Yet, as discussed earlier, current account statistics are plagued by measurement problems. Nor are price data above reproach. Unreliable statistics are the wrong basis for constructive reform of the exchange rate system. Target zones would also be difficult to adjust without political discord and anticipatory capital flows.

Chart 7

Eurodollar interest differentials
based on three-month Eurocurrency deposit rates, in percent



The promising course lies in the evolution of more harmonious national policies and economic performances. The encouragement of a lower level of U.S. interest rates is of cardinal importance. Domestic indicators point to some modest scope for lowering interest rates. Inflation now is very low: consumer prices have been essentially flat for six months, while the growth in average hourly earnings has receded below 5%. Short-term business credit has fallen 5% from last September's peak.

Moreover, real interest rates, by almost any measure of the excess of nominal interest rates over recent inflation rates, are still very high by historical standards. Interest rates, however, are a function of inflationary expectations and risks, which may not have declined in line with the fall in actual inflation and are difficult to measure. It is a reasonable conjecture, however, that inflationary expectations will slowly recede for some time to come.

Since interest rate reduction depends on lowering inflationary expectations, the recent decline in oil prices is making a constructive contribution. Even more helpful would be consistently moderate monetary growth. M2 now runs below the lower end of its target range. M3 has returned to within its separate range. Although both these broad aggregates decelerated last month, their growth surpassed market expectations. Moreover, M1 still runs above its target. Sizable weekly increases in narrow money supply, possibly exaggerated by problems of seasonal adjustment, are stirring concern. Against the background of evident economic recovery and an encouraging downward trend in consumer lending and mortgage rates, relaxation of Federal Reserve policy at the present time would risk igniting inflationary fears.

U.S. interest rates will continue to embody a higher risk premium than do Japanese and German rates. That higher premium can be attributed to the long-term commitment of Japan and Germany to low inflation and to the long-established credibility of their monetary authorities. In the United States, where inflation has been allowed to soar higher, investors will have to experience a sustained period of low inflation before being persuaded of its permanence. Until then, there will be an interest differential favoring the dollar that cannot be corrected by monetary policy (see Chart 7).

High interest rates are frequently traced to large federal budget deficits and the inflationary expectations that deficits arouse. It should be reemphasized that this year's deficit is not the problem. Attempting to balance the budget in the near term by eliminating or modifying the third-year tax cut would endanger the economic recovery. Consumer spending, only recently perking up, would be undercut immediately, while the wider benefits of lower interest rates might not become apparent for some time.

The troubling questions concern the budget outlook for FY1984 and later years. As the economic recovery continues, the government must increasingly compete with business investment for funds in the capital markets. High interest rates would likely be reduced by a concerted effort to close the large projected deficits in the future. Yet, at present there is little sign of such concerted effort on the part of the Administration and the Congress. If anything, there appears to be diminishing determination to grapple with ever-rising expenditure estimates. Simple resort to increased taxes or repeal of the indexation of personal income taxes, scheduled to take effect next year, would be a discouraging evasion of the spending issue. But if spending cannot be sufficiently curbed, revenues must be increased.

Responsibility for an overvalued dollar cannot be pinned solely on the United States. The Japanese yen is the most seriously undervalued of the major currencies and is the most conspicuous source of trade frictions in the world today. The Japanese economy is performing far below potential, with an excess of domestic savings unable to find productive use at home. An ill-judged macroeconomic policy mix is the fundamental problem. Given its sluggish economy and high real interest rates, Japan cannot be expected to tighten its monetary policy to remedy the currency problem. Japanese policymakers can, however, delay the reduction in the government's budget deficit and provide a fiscal stimulus while maintaining an unchanged monetary policy. This would complicate domestic debt management, but it would allow the yen to strengthen as foreign interest rates gradually decline. As the fiscal stimulus revives economic growth, Japanese interest rates might even increase slightly with an unchanged monetary policy. Stronger domestic growth in response to the fiscal stimulus would encourage Japanese firms to focus more on domestic markets than on export markets where trade frictions arise. The consequent reduction in Japan's external surplus would mean that Japan would devote more of its domestic savings to the domestic government deficit and less to financing of the U.S. federal deficit.

From the standpoint of wider European and global economic recovery, Germany is already pursuing an appropriately stimulative policy. Recovery in Germany, based mainly on domestic sources of demand rather than on exports, is taking hold with no indication at this stage of any need for further stimulus. In fact, Germany's monetary growth is deemed excessive by some observers. Central bank money currently shows an annual growth rate of 11½% from its base, well outpacing its 4%-7% target. To quell monetary growth and associated inflationary fears that could depress the mark on exchange markets there is a case for Germany to raise its domestic interest rates, just as the Dutch authorities recently did. In the event that currency developments dictate a rise in German interest rates, the timing and extent of present objectives for reducing the budget deficit should be reconsidered.

The strength of the dollar and possible reforms of the exchange rate system will attract the attention of the summit leaders at Williamsburg. It is to be hoped that divisive, technical issues will not preempt their energies. Instead, their emphasis should lie on the key requirements for a better balance of monetary and fiscal policies among the major nations, for liberalizing markets and for assuring an adequate flow of long-term development finance. Particular responsibility for fostering world economic recovery rests on the summit nations that now enjoy low inflation and strong external payments — the United States, Japan, Germany, and the United Kingdom. Ways must be found to sustain their noninflationary upward path and to rebuild confidence so that all countries, in time, will benefit.

Improved macroeconomic policies are not the complete answer. A basic priority should be to arrest the further spread of protectionism and trade restrictions, indeed to restore a truly open world trade order. Increased exports by developing countries are the critical ingredient in any sound solution to their debt problems. If the markets of the industrial countries are closed, this export growth cannot occur. Nor should industrial countries squander valuable resources to shore up aging sectors that can never again expect to withstand free international competition. Liberalizing world trade, not just in rhetoric but also in practice, is a painful political and economic imperative, but in the long run it will increase global economic prosperity.

Statistical appendix

for key to data in tables see pages 18 and 19.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Effective exchange rates

Index numbers, March 1973=100. The index of the effective exchange rate for a currency is a measure of that currency's trade-weighted average appreciation or depreciation vis-à-vis the currencies of 15 other major countries. The exchange rates used in the construction of this index are the averages of daily noon spot exchange rates in New York for months and for weeks ending on dates shown. The trade weights used are based on 1976 bilateral trade in manufactures.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
pre-June 1970 parities	118.5	94.9	79.3	116.2	91.6	97.5	110.9	95.9	98.2	88.3	97.8	97.9	98.1	102.2	92.2	98.4
Smithsonian central rates	107.0	101.3	88.7	116.0	95.4	96.1	108.3	97.0	99.1	91.6	98.0	96.0	96.3	100.5	91.7	98.1
1982																
May	113.6	82.3	117.2	77.4	141.6	82.3	45.2	95.7	120.7	180.9	123.8	84.1	109.2	81.4	79.3	62.1
June	118.8	80.2	112.9	78.5	142.0	78.9	45.0	95.4	121.6	178.1	123.8	82.5	110.1	81.9	80.2	61.4
July	119.9	80.7	112.1	78.8	142.6	76.8	45.1	95.6	122.0	179.7	124.1	82.0	108.8	82.0	79.3	61.1
August	119.8	82.5	110.9	78.9	142.8	76.5	45.0	95.3	122.8	179.6	124.3	81.7	104.2	82.7	77.3	61.2
September	120.4	83.3	109.7	79.2	143.2	75.8	45.0	94.8	123.6	179.1	124.6	81.3	102.0	82.6	76.4	61.4
October	121.9	83.9	107.2	80.0	144.4	76.0	44.7	94.5	124.9	179.4	125.4	83.4	102.1	73.0	76.5	61.1
November	121.9	84.3	110.9	77.6	144.8	76.3	44.2	94.6	125.3	179.9	125.9	84.7	103.1	70.3	76.6	59.6
December	118.7	83.0	119.5	74.1	147.3	77.5	44.7	94.9	125.7	184.5	127.1	86.2	102.7	69.3	76.0	54.2
1983																
January	117.1	83.5	123.7	71.4	147.5	77.6	45.0	95.1	126.4	191.4	127.0	86.8	101.9	69.2	76.3	53.4
February	118.3	83.8	122.9	70.4	147.6	77.7	44.9	95.0	126.3	189.7	127.0	86.5	102.6	69.3	76.0	52.9
March	119.3	84.1	122.9	69.0	150.2	76.6	44.2	96.2	126.6	186.4	128.7	86.7	102.4	69.4	70.2	51.9
April	119.9	83.7	123.7	72.0	150.6	74.1	44.2	95.6	125.0	189.1	128.0	86.6	103.2	69.6	68.7	51.5
April 1	120.4	83.9	123.0	68.6	151.4	74.6	44.5	96.4	125.9	187.2	129.0	87.7	102.9	69.8	69.2	51.3
8	120.0	83.5	123.4	70.1	151.2	74.5	44.4	96.2	125.4	188.8	128.7	87.3	103.1	69.6	68.8	51.5
15	119.8	83.7	123.5	71.9	150.7	74.2	44.2	95.7	125.0	189.8	128.3	86.8	102.9	69.5	68.7	51.6
22	119.9	83.7	124.2	72.7	150.2	74.0	44.1	95.5	124.7	189.4	127.9	86.3	103.4	69.7	68.7	51.5
29	119.6	84.1	123.9	73.5	150.0	73.8	44.1	95.4	124.7	189.4	127.8	86.0	103.7	69.7	68.6	51.6
May 6	119.4	84.1	124.4	74.0	150.2	73.6	44.1	95.3	124.9	189.2	127.7	85.8	103.6	69.6	68.5	51.2
13	118.9	84.0	126.5	73.3	150.4	73.7	44.1	95.1	124.9	191.3	127.6	85.8	103.7	69.5	68.8	51.1

Real effective exchange rates

Index numbers, March 1973=100. The index of the real effective exchange rate is the index of the effective exchange rate adjusted for inflation differentials which are measured by wholesale prices of nonfood manufactures. Exchange rates and trade weights used in the construction of this index are the same as those used for effective exchange rate indices. Annual figures are averages of months.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
1979	95.9	92.1	95.3	117.9	103.2	98.1	92.4	95.6	100.1	116.3	107.5	100.5	92.5	98.8	88.0	136.7
1980	97.4	91.2	93.1	136.9	100.3	99.5	95.1	90.0	96.0	105.8	107.8	93.0	94.6	100.1	89.4	135.0
1981	108.2	91.4	93.8	139.9	94.8	97.9	90.6	84.4	95.9	105.0	106.1	88.9	99.0	101.0	98.6	129.2
1982	116.9	91.7	82.8	135.2	96.4	95.7	89.5	77.7	100.6	109.2	107.9	87.1	100.6	95.9	100.9	128.7
1982																
May	112.3	92.0	85.8	133.5	96.8	99.8	89.2	77.5	99.9	108.2	108.1	86.7	103.4	97.5	101.1	130.9
June	118.2	89.3	81.9	135.5	96.8	95.7	88.6	77.3	101.0	107.0	108.0	86.4	103.2	97.7	102.8	129.7
July	120.0	89.3	80.7	136.2	96.8	93.7	89.0	77.2	100.9	107.2	108.2	85.9	101.9	98.3	102.4	129.1
August	120.1	90.8	79.9	136.5	96.8	92.8	89.6	77.3	101.2	107.3	108.2	86.2	97.8	99.2	100.8	129.6
September	119.3	93.1	79.1	137.5	96.9	92.1	89.9	76.8	101.7	107.2	108.1	86.0	96.6	99.1	100.2	130.9
October	122.2	92.4	76.5	138.8	97.2	93.1	89.2	76.2	102.0	107.3	108.2	88.5	96.5	90.2	99.9	130.4
November	122.5	92.3	79.0	135.2	97.0	93.3	89.5	76.1	102.2	107.4	108.5	89.1	97.5	88.4	99.8	128.6
December	119.1	91.0	84.7	130.4	98.1	95.3	90.5	76.5	101.7	109.4	110.0	90.2	97.3	87.3	99.2	118.9
1983																
January	116.7	92.0	87.6	126.0	97.8	96.3	91.4	76.6	101.9	113.0	110.2	90.7	96.7	88.8	100.5	118.2
February	117.5	92.5	87.1	124.5	97.3	96.9	91.4	76.6	101.5	112.0	110.5	90.9	98.1	88.7	101.4	118.7
March	117.6	93.8	87.1	122.4	98.6	96.1	90.6	77.7	101.2	109.9	111.9	90.6	98.7	88.8	93.4	117.0
April	117.9	93.2	87.6	128.5	98.4	93.5	91.1	77.0	99.5	110.8	111.6	90.3	99.5	90.6	91.7	117.9

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, and Singapore
billions of dollars (rounded to nearest $5 billion), at end of period

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	
										Sep	Dec
Estimated size											
Gross	315	395	485	595	740	950	1 235	1 525	1 860	2 015	2 055
Liabilities to nonbanks	55	80	90	115	145	190	260	345	440	475	485
Liabilities to central banks	40	60	65	80	100	115	145	150	130	105	90
Liabilities to other banks[a]	220	255	330	400	495	645	830	1 030	1 290	1 435	1 480
Net	160	220	255	320	390	495	590	730	890	940	960
Claims on nonbanks	70	105	130	165	210	265	330	425	530	575	595
Claims on central banks and on banks outside market area[b]	70	95	105	130	150	185	200	230	275	275	270
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	20	25	30	45	60	75	85	90	95
Eurodollars as % of gross liabilities in all Eurocurrencies	74	76	78	80	76	74	72	75	78	81	79

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1979	1980	1981	1982				1983			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Eurodollar:											
overnight	14.00	19.25	12.87	10.50	9.50	8.88	9.25	8.63	8.63	9.13	8.75
7-day fixed	14.00	19.75	13.00	10.50	9.50	9.00	9.25	8.75	8.63	9.25	8.75
one month	14.37	19.12	13.31	11.00	9.62	9.38	9.13	9.00	8.56	9.44	8.94
three months	14.44	17.55	13.75	11.44	10.00	9.88	9.19	9.25	8.75	9.63	8.88
six months	14.44	16.37	14.81	11.94	10.19	10.13	9.50	9.56	8.88	9.75	9.06
twelve months	12.87	14.87	14.75	12.19	10.50	10.38	9.63	9.75	9.13	9.94	9.25
Euromark:											
one month	8.50	8.87	10.44	7.62	7.00	7.19	5.88	5.63	5.38	4.81	4.88
three months	8.56	8.87	10.50	7.75	7.00	7.06	5.88	5.63	5.25	4.94	5.00
six months	8.56	8.87	10.56	7.94	7.00	7.06	5.94	5.69	5.38	5.13	5.06
twelve months	8.12	8.93	10.25	7.94	6.94	7.00	6.00	5.88	5.50	5.38	5.31
Euro-Swiss franc:											
one month	5.19	6.00	8.87	3.81	3.00	3.94	2.81	2.38	2.88	3.81	4.31
three months	5.75	6.00	9.25	4.37	3.56	4.06	3.25	2.75	3.00	3.88	4.38
six months	5.87	5.75	9.25	4.81	4.12	4.06	3.44	3.38	3.38	3.88	4.38
twelve months	5.56	5.50	8.50	4.81	4.19	4.19	3.44	3.56	3.63	3.94	4.38
Eurosterling:											
one month	16.75	14.75	15.37	10.88	9.88	10.44	10.56	11.50	11.38	10.75	10.25
three months	16.75	14.75	15.69	10.50	9.44	10.44	10.44	11.50	11.25	10.69	10.19
six months	16.75	14.25	15.69	10.50	9.44	10.38	10.31	11.44	13.19	10.63	10.06
twelve months	15.25	14.00	15.37	10.50	9.44	10.31	10.31	11.25	10.75	10.56	10.00
Euro-French franc:											
one month	13.87	11.12	15.75	16.25	20.00	19.50	23.00	16.00	21.50	12.13	12.38
three months	14.00	11.75	17.00	18.00	20.00	19.75	24.00	20.00	23.00	12.31	12.88
six months	14.12	12.25	18.00	19.00	20.00	20.38	22.00	20.00	21.25	13.75	14.38
twelve months	13.75	12.87	18.25	19.25	19.00	20.00	19.75	18.00	18.38	15.00	16.00
Euroyen:											
one month	7.62	9.12	6.12	7.00	6.75	7.31	6.75	6.56	6.69	6.38	6.13
three months	8.31	9.25	6.12	7.25	6.88	7.25	6.75	6.56	6.63	6.38	6.19
six months	8.62	9.62	6.87	7.50	6.94	7.19	6.81	6.50	6.50	6.38	6.19
twelve months	7.94	9.37	6.87	7.56	7.00	7.19	6.81	6.63	6.56	6.44	6.38

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	1981	1982	1983			Jan-Apr	
				Feb[r]	Mar[r]	Apr[p]	1983	1982
Industrial countries	**39 100**	**86 022**	**42 632**	**3 744**	**3 941**	**1 998**	**12 497**	**13 255**
Australia	2 475	1 660	4 721	580	155	362	1 097	2 277
Canada	1 743	4 112	3 838	—	—	—	—	1 900
Denmark	1 720	1 661	789	—	—	—	1 300	727
France	1 745	3 912	5 653	450	140	—	590	365
Greece	1 333	1 039	770	—	500	26	546	550
Ireland	237	1 361	401	41	—	500	541	100
Italy	6 268	6 030	3 557	289	470	—	981	1 513
Norway	685	713	2 069	—	204	26	230	230
Portugal	745	1 590	1 388	—	—	300	300	656
Spain	5 457	3 242	1 806	731	96	114	1 042	816
Sweden	1 370	1 867	649	1 600	460	—	2 060	100
United Kingdom	1 470	747	1 635	—	265	—	304	443
United States	6 719	54 784	6 566	48	508	505	1 613	1 684
Others[a]	7 133	3 284	8 790	5	1 143	165	1 893	1 894
Developing countries	**35 054**	**45 239**	**40 939**	**6 993**	**1 021**	**1 373**	**16 813**	**15 328**
Non-OPEC countries	24 009	33 369	28 219	6 206	831	870	13 996	11 245
Argentina	2 506	2 534	1 565	—	—	—	—	405
Brazil	4 158	5 751	5 716	4 405	25	—	4 475	1 682
Chile	1 322	2 204	1 194	—	—	—	—	264
Colombia	608	1 005	227	—	—	100	100	73
Korea	1 917	2 824	2 923	610	40	—	870	1 147
Malaysia	—	1 725	1 909	500	—	50	610	155
Mexico	5 971	7 530	7 953	—	100	—	5 100	4 353
Peru	408	1 407	1 069	—	—	—	16	519
Philippines	1 056	1 257	635	33	252	—	585	292
Taiwan	314	928	255	100	46	100	346	—
Other	5 677	6 204	4 773	558	368	620	1 894	2 295
OPEC countries	11 045	11 870	12 720	787	190	503	2 817	4 083
Ecuador	1 209	934	815	—	—	—	—	505
Indonesia	1 435	725	1 250	45	20	—	1 065	308
Nigeria	1 330	1 802	2 042	33	—	—	33	312
United Arab Emirates	101	363	93	690	—	—	690	13
Venezuela	6 715	7 559	6 799	—	—	—	237	2 754
Other	255	497	1 721	19	170	503	792	191
Communist countries	**2 809**	**1 791**	**765**	**200**	**18**	**15**	**233**	**374**
China	181	370	43	—	—	—	—	—
East Germany	303	470	8	—	—	—	—	—
Hungary	550	550	340	200	18	15	233	—
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	—	—	—	—	374
International organizations[c]	**429**	**302**	**150**	**21**	—	—	**21**	**150**
TOTAL	**77 392**	**133 354**	**84 486**	**10 988**	**4 980**	**3 386**	**29 564**	**29 107**

[a] Includes multinational organizations
[b] Includes COMECON institutions
[c] Includes regional development organizations
[p] preliminary
[r] revised

International bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982					1983		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
U.S companies:											
U.S. dollar	10.13	11.76	12.70	13.04	12.92	11.63	11.32	11.28	10.46	10.24	10.09
Swiss franc	6.61	7.27	7.30	6.12	5.94	5.74	5.74	5.76	5.63	5.72	5.66
European companies:											
U.S. dollar	10.93	12.42	14.29	13.81	13.73	12.81	12.37	12.45	11.60	11.37	11.37
German mark	7.55	8.79	9.36	8.32	8.24	8.23	8.31	8.17	8.15	7.98	7.49
Governments:											
U.S. dollar	10.66	11.83	13.59	13.41	13.30	12.62	12.00	12.51	12.07	11.25	11.17

New international bond issues*

new issues in period, in millions of dollars

	1980	1981	1982	1983			Jan-Apr	
				Feb^r	Mar^r	Apr^p	1983	1982
By type:								
Eurobonds, total	**23 970**	**31 616**	**49 839**	**3 452**	**3 180**	**5 034**	**18 485**	**22 207**
by category of borrower								
U.S. companies	4 107	6 178	12 596	100	546	575	2 074	6 222
Foreign companies	9 032	12 882	13 231	1 368	1 426	2 281	6 549	4 865
State enterprises	5 839	7 496	13 529	1 039	1 023	1 282	5 602	6 488
Governments	3 045	2 629	7 107	603	63	369	2 864	3 129
International organizations	1 947	2 431	3 376	342	122	527	1 396	1 503
by currency of denomination								
U.S. dollar	16 427	26 830	42 930	2 533	2 489	4 047	14 772	19 590
German mark	3 607	1 277	2 487	493	258	569	1 880	892
Dutch guilder	1 043	529	645	74	111	27	325	311
Canadian dollar	279	634	1 181	41	139	123	388	789
European composite units	65	309	1 301	226	94	37	701	102
Other	2 549	2 037	1 295	85	89	231	419	523
Foreign bonds outside the United States, total	**14 521**	**13 817**	**19 879**	**2 583**	**2 045**	**2 465**	**10 102**	**8 088**
by category of borrower								
U.S. companies	307	592	1 971	184	15	267	568	872
Foreign companies	3 157	3 384	4 184	992	821	863	3 929	1 468
State enterprises	2 830	3 701	5 429	643	301	331	1 694	2 073
Governments	4 086	2 762	3 494	447	505	147	1 380	1 628
International organizations	4 141	3 378	4 801	317	403	857	2 531	2 047
by currency of denomination								
German mark	4 839	1 310	2 745	90	331	356	1 403	1 144
Swiss franc	7 617	8 285	11 129	1 878	1 005	1 645	6 542	4 556
Dutch guilder	259	481	957	131	205	100	473	292
Japanese yen	1 088	2 457	3 418	484	420	231	1 353	1 605
Other	718	1 284	1 630	—	84	133	331	491
Foreign bonds in the Unites States, total	**3 429**	**7 552**	**6 096**	**975**	**400**	**400**	**1 823**	**1 500**
by category of borrower								
Canadian entities	2 136	4 630	3 330	575	109	300	993	1 457
International organizations	550	1 375	1 700	400	—	100	500	—
Other	743	1 547	1 066	—	300	—	330	43
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**60 992**	**5 934**	**4 927**	**6 269**	**25 568**	**25 392**
Australia	539	991	2 167	116	68	100	541	796
Austria	1 859	1 557	1 668	86	334	91	581	896
Canada	3 797	10 648	11 759	1 112	592	924	3 203	5 241
Denmark	1 125	695	1 019	138	199	82	711	590
Finland	392	672	815	50	—	88	294	349
France	2 820	3 156	7 393	787	387	1 101	4 125	3 211
Italy	904	1 108	1 746	83	—	—	233	689
Japan	5 309	6 928	8 213	1 435	1 070	1 858	6 151	2 697
Netherlands	1 585	630	865	37	112	98	303	263
New Zealand	293	1 107	1 375	184	218	47	449	475
Norway	892	530	832	176	—	50	250	203
Sweden	3 244	2 050	2 729	328	287	85	2 081	1 390
United Kingdom	1 733	1 408	1 281	69	52	126	302	46
United States	5 587	6 770	14 567	284	561	842	2 642	7 094
Developing countries	**2 485**	**4 769**	**4 930**	**17**	**182**	**121**	**390**	**2 788**
Non-OPEC countries	1 942	4 338	3 890	17	145	121	353	2 153
Brazil	349	60	91	—	—	—	—	73
Korea	68	323	172	—	41	40	151	92
Mexico	544	3 012	1 919	—	—	—	—	1 403
OPEC countries	543	431	1 040	—	37	—	37	635
Venezuela	398	291	385	—	—	—	—	285
Communist countries	**65**	**75**	**65**	—	—	**25**	**25**	**65**
International organizations	**6 638**	**7 163**	**9 677**	**1 059**	**525**	**1 484**	**4 427**	**3 550**
TOTAL	**41 920**	**52 985**	**75 664**	**7 010**	**5 634**	**7 899**	**30 410**	**31 795**

*Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.

Central bank discount rates

	1979	*1980*	*1981*	*1982*			*1983*	*Current*	
	end Dec	*end Dec*	*end Dec*	*end Jun*	*end Sep*	*end Dec*	*end Mar*	*May 10 1983*	*effective since*
United States	12.00	13.00	12.00	12.00	10.00	8.50	8.50	8.50	Dec 15, 82
Canada	14.00	17.36	14.66	16.58	12.98	10.26	9.51	9.33	May 5, 83
Japan	6.25	7.25	5.50	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	17.00	14.00	14.37	12.50	10.00	10.00	10.56	10.00	Apr 14, 83
Belgium	10.50	12.00	15.00	14.00	12.50	11.50	11.00	10.00	Apr 14, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	0.00	7.50	7.50	7.50	7.00	5.00	4.00	4.00	Mar 16, 83
Italy	15.00	16.50	19.00	19.00	18.00	18.00	18.00	17.00	Apr 11, 83
Netherlands	9.50	8.00	9.00	8.00	7.00	5.00	3.50	4.50	May 3, 83
Austria	3.75	6.75	6.75	6.75	6.25	4.75	3.75	3.75	Mar 16, 83
Denmark	11.00	11.00	11.00	11.00	11.00	10.00	8.50	7.50	Apr 21, 83
Finland	8.50	9.25	9.25	8.50	8.50	8.50	8.50	8.50	Jun 1, 82
Ireland	16.40	12.75	17.15	18.30	14.55	14.35	14.35	14.35	Dec 23, 82
Norway	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	Nov 30, 79
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.00	12.00	11.00	10.00	10.00	10.00	9.00	8.50	Apr 8, 83
Switzerland	2.00	3.00	6.00	5.50	5.00	4.50	4.00	4.00	Mar 16, 83
Argentina	89.90	87.01	98.50	87.23	128.54	128.54	128.54	128.54	Sep 30, 82
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	7.00	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	11.00	13.00	14.00	14.00	14.00	13.00	13.00	13.00	Sep 30, 82

Day-to-day money rates

monthly averages

	1979	*1980*	*1981*	*1982*					*1983*		
	Dec	*Dec*	*Dec*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*
United States	13.78	18.90	12.37	10.12	10.31	9.71	9.20	8.95	8.68	8.51	8.77
Canada	13.83	15.61	14.53	15.03	13.58	12.10	10.91	10.63	9.75	9.60	9.40
Japan	8.02	9.49	6.70	7.18	6.99	6.92	6.68	6.92	6.64	6.57	6.69
Australia	7.84	9.51	12.84	15.09	13.23	13.27	12.52	11.04	9.84	10.70	10.61
United Kingdom	14.87	13.00	9.13	9.75	9.80	8.56	8.33	6.70	10.81	10.81	7.50
Belgium	10.65	9.68	12.78	11.76	10.52	11.13	10.51	9.43	9.80	9.97	11.82
France	12.17	10.87	15.46	14.58	14.11	13.91	13.18	12.88	12.71	12.77	12.84
Germany	9.15	9.13	10.65	8.74	7.96	7.48	7.02	6.07	5.91	5.70	5.49
Italy	16.00	17.50	20.63	19.69	18.63	18.63	18.86	19.00	19.00	19.00	19.00
Netherlands	15.67	8.37	10.67	8.63	7.33	7.23	6.13	5.31	5.10	4.96	4.41
Austria	8.50	11.50	7.50	9.25	7.75	6.25	6.38	6.00	5.88	5.88	5.38
Finland	13.53	12.50	11.30	11.50	11.45	11.70	11.50	11.50	11.00	12.00	n.a.
Ireland	16.88	13.31	16.88	15.62	16.00	13.13	15.50	14.54	15.38	13.94	17.63
Spain	9.61	16.74	18.73	13.96	13.78	20.54	23.18	20.30	16.60	17.20	17.68
Sweden	11.99	11.41	13.82	14.47	15.22	13.30	12.51	8.63	4.62	10.55	11.20
Switzerland	1.25	5.75	3.38	1.50	2.25	1.87	1.38	1.25	1.38	1.50	3.13
Argentina	78.22	70.84	84.93	101.34	127.09	135.66	132.70	155.32	154.38	159.38	180.22
Brazil	37.51	62.71	103.74	130.32	108.40	125.22	136.85	150.42	119.23	125.22	164.70
Hong Kong	14.19	14.05	10.75	8.25	9.37	11.05	11.13	9.13	7.13	10.40	9.63
Korea	15.00	14.82	14.40	13.23	13.39	13.58	13.75	13.84	13.25	13.30	13.70
Philippines	16.25	15.70	14.70	10.56	12.68	13.01	10.90	16.12	11.43	14.29	n.a.
Singapore	10.17	10.23	3.96	7.56	5.67	6.16	5.34	11.45	8.22	5.88	6.04
South Africa	3.81	5.60	12.34	14.72	14.85	14.45	13.50	12.90	9.70	9.57	8.25
Eurodollars	14.41	19.22	12.29	10.10	10.52	9.88	9.40	9.15	8.72	8.73	8.86

Treasury bill rates

bond-equivalent yields, at or near end of month

	1979	1980	1981	1982					1983		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	12.39	14.87	11.90	8.01	7.64	8.13	8.10	8.15	8.23	8.03	8.93
Canada	13.66	17.01	14.41	13.70	12.73	11.21	10.72	9.80	9.58	9.23	9.17
Japan	5.68	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	9.31	12.17	13.27	14.43	11.62	13.72	12.98	9.39	11.05	14.95	14.11
United Kingdom	16.45	13.45	15.31	10.26	9.99	9.14	8.94	9.90	10.58	10.73	10.94
Belgium	14.40	12.75	16.00	13.75	12.75	12.75	12.25	12.25	12.25	12.25	12.00
Ireland	16.37	12.84	17.35	14.64	14.48	12.74	12.87	14.70	15.38	13.76	14.39
Italy	15.62	16.87	21.36	19.01	17.67	18.05	19.09	19.11	19.09	19.09	18.88
Netherlands	12.75	8.00	9.75	7.38	7.00	6.50	5.88	5.63	5.38	5.00	4.50
Spain	15.00	17.20	15.83	15.53	15.15	16.79	17.38	16.96	17.06	16.99	16.56
Sweden	9.74	12.87	9.20	10.25	10.26	10.26	9.20	8.18	7.14	7.14	7.13
Argentina	71.04	66.19	77.10	133.36	133.36	133.36	133.36	133.36	110.39	158.38	n.a.
Brazil	31.68	110.60	110.21	131.87	135.53	132.91	132.91	n.a.	n.a.	n.a.	n.a.
Korea	19.53	16.35	16.00	14.40	14.40	8.00	8.00	8.00	8.00	8.00	8.00
Mexico	17.89	27.73	33.22	55.88	49.72	43.02	51.26	57.44	59.56	n.a.	n.a.
New Zealand	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
Philippines	12.63	12.74	13.40	14.18	14.30	14.32	14.48	14.53	14.54	14.54	n.a.
Singapore	6.18	6.77	3.03	3.30	3.09	2.96	3.07	2.74	3.05	3.07	2.59
South Africa	4.30	6.31	14.55	16.91	16.12	16.06	15.12	14.62	12.70	9.79	11.35

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1979	1980	1981	1982					1983		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	13.70	17.62	12.78	9.61	10.26	8.68	8.68	8.81	8.29	8.30	9.34
Canada	14.15	17.50	15.25	14.20	12.95	11.65	11.00	9.95	10.00	9.40	9.45
Japan	8.01	9.80	6.30	7.22	7.05	6.89	7.06	6.80	6.51	6.69	6.57
Australia	10.30	13.00	16.00	17.00	14.10	15.50	13.80	10.65	11.30	16.00	16.25
United Kingdom	17.00	14.75	15.69	10.75	10.56	9.56	10.38	10.50	11.56	11.31	10.69
Belgium	14.45	13.10	16.00	13.90	13.00	12.85	12.50	12.35	12.35	12.25	12.25
France	12.62	11.56	15.25	14.38	13.81	13.06	12.94	12.75	12.63	12.94	12.70
Germany	8.70	10.20	10.50	8.30	8.00	7.33	7.25	6.20	5.90	5.68	5.30
Ireland	18.12	13.63	18.50	15.62	15.38	13.69	13.63	15.75	16.13	13.94	15.25
Italy	17.12	17.37	21.00	18.75	18.50	18.50	18.80	19.00	18.88	19.00	19.00
Netherlands	13.00	9.37	11.00	8.13	8.00	6.38	6.75	5.25	5.00	4.50	4.25
Spain	13.20	17.40	15.52	15.13	13.91	17.30	19.27	16.55	16.53	16.82	15.86
Switzerland	6.12	7.50	10.12	4.00	4.62	3.75	4.25	3.88	2.88	3.25	4.00
Hong Kong	14.37	17.69	14.18	10.75	10.00	11.00	11.25	10.13	8.75	8.50	9.50
Korea	19.53	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	16.00	14.25	16.05	17.50	17.75	18.00	17.25	16.75	16.25	14.00	14.00
Philippines	10.41	15.01	17.61	16.69	16.50	15.89	16.00	15.91	15.53	15.90	n.a.
Singapore	10.12	14.12	7.81	8.31	7.69	7.69	7.31	8.69	7.94	7.06	6.56
South Africa	4.72	7.12	15.47	17.59	17.10	17.21	15.75	15.26	13.33	10.41	12.11

Commercial bank deposit rates

at or near end of month

	1979	1980	1981	1982					1983		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	13.55	16.25	12.62	10.10	9.75	9.15	8.70	8.25	8.50	8.35	9.15
Canada	14.05	17.00	15.20	14.05	12.85	11.60	10.95	9.85	9.90	9.35	9.40
Japan	8.37	9.00	6.50	7.35	7.30	7.27	7.15	7.00	6.80	6.86	6.98
Australia	10.25	12.71	15.65	17.51	14.69	14.96	14.56	10.20	10.80	15.07	15.48
United Kingdom	16.81	14.87	15.69	10.63	10.81	9.50	10.44	10.31	11.63	11.25	10.75
Belgium	14.50	12.63	15.50	13.13	12.75	12.50	12.25	12.25	12.25	12.25	12.88
France	12.50	11.25	9.16	8.75	8.53	8.43	8.19	8.24	8.24	8.24	8.24
Germany	7.75	8.00	9.50	7.00	7.00	6.60	6.50	6.00	5.25	5.10	4.75
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	13.50	9.50	11.00	8.13	7.88	6.38	6.75	5.38	5.00	4.50	4.25
Austria	8.50	11.25	9.63	8.63	8.25	7.75	7.13	6.25	6.00	6.00	5.50
Denmark	10.00	10.00	10.00	10.00	10.00	10.00	9.00	9.00	9.00	9.00	7.50
Finland	4.25	5.00	5.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Ireland	17.87	13.63	18.38	15.50	15.25	13.63	13.50	15.25	16.00	13.75	15.13
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	4.50	11.78	12.44	12.33	13.04	13.03	12.53	12.23	12.42	n.a.
Sweden	8.75	9.75	10.25	9.50	9.50	9.50	9.50	9.50	8.50	8.50	8.50
Switzerland	4.75	7.50	8.75	3.50	3.25	3.00	3.00	3.00	2.00	2.00	2.75
Argentina	72.64	72.00	86.76	60.83	85.16	85.16	103.42	103.42	127.75	121.66	121.66
Brazil	55.55	96.49	110.05	99.00	103.18	107.53	122.51	118.26	116.21	117.61	119.29
Hong Kong	9.25	13.00	12.50	9.00	9.00	9.00	8.50	7.50	7.50	7.50	7.50
Korea	15.00	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	16.75	26.15	31.81	53.29	49.75	45.32	45.50	52.54	59.66	n.a.	n.a.
New Zealand	15.90	13.50	15.50	16.50	16.50	16.50	16.50	16.50	15.25	13.00	12.75
Philippines	10.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	10.31	13.19	7.50	8.00	7.31	7.00	7.00	8.25	7.31	6.75	6.19
South Africa	4.82	7.87	14.75	17.17	16.50	16.53	15.18	15.25	13.43	10.63	12.00
Venezuela	15.00	16.00	14.75	15.50	14.50	15.00	15.00	15.50	16.00	16.50	16.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1979	1980	1981	1982					1983		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	15.25	21.50	15.75	13.50	13.00	12.00	11.50	11.50	11.00	10.50	10.50
Canada	15.00	18.25	16.50	15.50	15.00	13.75	13.00	12.50	12.00	11.50	11.50
Japan	6.51	8.16	6.95	6.32	6.31	6.31	6.29	6.28	6.30	6.30	6.30
Australia	10.75	13.50	15.75	17.50	17.00	16.50	16.50	15.00	14.00	14.00	16.00
United Kingdom	18.00	15.00	14.50	10.50	10.00	9.50	10.00	10.00	11.00	11.00	10.50
Belgium	15.25	15.75	18.00	16.75	16.00	16.00	15.50	15.50	15.50	15.50	15.00
France	12.50	12.25	14.00	13.25	13.25	12.75	12.75	12.25	12.25	12.25	12.25
Germany	9.75	11.50	13.00	11.50	10.50	10.50	10.00	8.75	8.75	8.75	7.75
Italy	19.50	20.50	22.50	20.75	20.75	20.75	20.75	20.75	20.75	20.00	20.00
Netherlands	15.00	10.75	12.00	8.75	8.75	8.00	7.25	6.25	6.25	6.00	5.00
Austria	8.50	12.50	13.50	12.25	11.50	11.50	11.75	11.75	11.00	11.00	11.00
Denmark	13.75	13.75	15.00	15.50	15.50	15.50	14.00	14.00	14.00	14.00	12.00
Finland	9.06	9.83	9.84	8.99	8.97	8.97	8.95	8.95	8.99	n.a.	n.a.
Ireland	16.00	14.50	17.25	16.50	16.50	16.50	16.50	16.50	16.50	16.50	17.50
Norway	11.00	12.50	13.75	14.00	14.00	14.00	14.50	14.50	14.50	14.50	14.50
Spain	9.00	18.50	17.04	17.82	16.04	18.35	20.39	19.00	18.34	18.48	17.65
Sweden	10.75	11.75	13.50	12.50	12.50	12.50	12.50	12.50	11.50	11.50	11.50
Switzerland	5.00	5.75	8.00	6.50	6.50	6.50	6.50	6.00	6.00	6.00	5.50
Argentina	80.00	77.00	92.60	73.00	97.33	97.33	109.50	109.50	139.92	133.83	133.83
Brazil	59.60	96.45	138.09	151.80	151.80	151.80	162.30	166.49	162.56	181.18	190.83
Hong Kong	14.50	17.00	16.00	12.00	12.00	12.00	11.00	10.50	10.50	10.50	10.50
Korea	18.50	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	19.00	24.25	31.81	46.42	47.88	45.99	45.51	46.12	50.29	52.12	54.24
New Zealand	11.75	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	16.00	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	9.50	13.60	11.83	10.25	10.03	9.75	9.33	9.33	9.53	9.25	9.10
South Africa	9.50	9.50	17.00	20.00	20.00	20.00	18.00	18.00	17.00	16.00	14.00
Venezuela	13.00	15.00	15.50	16.50	16.00	16.50	16.50	17.00	17.50	18.00	17.50

Domestic government bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982					1983		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	10.20	11.46	14.33	12.46	11.50	10.79	10.74	10.61	10.98	10.57	10.85
Canada	11.32	12.69	15.27	13.96	13.48	12.63	12.18	11.69	12.28	11.80	11.70
Japan	8.63	9.04	8.32	8.41	8.46	8.50	8.32	7.76	7.89	8.07	7.80
Australia	10.08	13.00	15.00	16.25	14.50	14.25	14.40	13.00	12.75	14.75	15.00
United Kingdom	13.83	13.05	15.02	11.20	10.74	10.04	10.95	10.62	11.56	10.88	10.52
Belgium	11.13	13.04	13.99	13.13	13.20	13.23	12.87	12.66	12.48	12.60	12.49
France	12.59	14.31	16.44	15.78	15.76	15.81	15.79	15.40	14.99	14.25	14.65
Germany	7.91	9.19	9.71	8.79	8.00	8.27	8.19	7.90	7.93	7.71	7.54
Italy	14.00	16.23	21.39	20.11	19.18	19.38	19.90	19.62	19.33	19.24	18.76
Netherlands	9.29	10.48	11.28	10.24	10.00	9.26	8.92	8.16	8.24	8.06	8.19
Austria	8.20	9.62	10.37	10.04	9.59	9.24	8.99	8.81	8.32	8.24	8.18
Denmark	18.28	19.98	20.91	22.72	22.83	21.16	20.81	20.14	18.55	15.89	15.16
Finland	9.58	10.42	10.98	10.59	10.64	10.62	10.68	10.64	10.58	10.70	n.a.
Ireland	16.64	15.63	18.28	15.93	15.17	13.95	15.53	14.54	14.98	14.26	13.96
Norway	10.04	10.44	12.37	13.16	13.27	13.29	13.32	13.32	12.75	13.00	13.00
Spain	n.a.	n.a.	12.50	12.50	12.50	12.75	12.75	12.75	12.75	12.75	12.75
Sweden	11.22	12.61	12.80	13.23	13.27	13.73	13.09	13.01	13.10	12.83	12.59
Switzerland	4.20	4.63	5.40	4.64	4.43	4.31	4.27	4.22	4.22	4.23	4.46
Argentina	47.94	36.84	107.98	309.96	188.74	242.86	135.02	159.88	n.a.	n.a.	n.a.
New Zealand	12.98	12.99	12.55	12.73	12.94	12.82	12.96	12.84	12.77	12.95	n.a.
Philippines	13.20	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	9.32	11.81	13.62	14.09	12.72	12.19	11.80	11.31	10.58	11.40	12.17
Venezuela	7.29	7.39	12.50	13.25	13.25	13.50	14.00	15.00	15.00	15.00	15.50

Domestic corporate bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982					1983		
	Dec	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States	10.75	13.00	15.50	13.50	12.88	12.00	11.75	11.75	11.88	11.53	11.63
Canada	12.07	13.62	16.48	15.99	14.78	13.61	13.58	13.05	13.54	12.99	12.92
Japan	8.34	8.60	7.70	7.99	8.05	8.10	8.10	7.55	7.25	7.26	7.39
Australia	11.65	14.25	16.50	17.50	16.75	16.75	16.75	15.00	15.00	16.00	16.25
United Kingdom	14.96	14.21	16.55	12.53	12.51	11.68	12.34	12.34	12.85	12.69	12.34
France	12.92	15.23	17.33	16.61	16.83	16.42	16.33	15.91	15.64	15.12	15.03
Germany	8.20	9.50	10.50	9.40	9.30	8.90	8.50	8.20	7.90	7.70	7.60
Netherlands	9.95	10.71	11.03	10.32	10.19	9.34	8.49	7.80	8.01	7.92	7.86
Norway	10.53	11.24	13.36	14.14	14.94	14.46	11.69	14.13	13.75	13.75	13.75
Spain	14.20	14.82	14.76	17.86	18.36	17.90	17.33	17.10	16.49	16.72	n.a.
Sweden	10.21	11.95	12.94	12.92	12.97	13.16	13.33	13.37	13.39	13.06	13.34
Switzerland	5.53	5.63	6.60	6.12	6.08	5.96	5.89	5.92	5.89	5.88	5.93
Korea	27.80	28.20	27.00	14.00	15.00	15.30	15.90	15.90	15.10	15.00	14.40
Venezuela	14.55	16.15	17.00	17.50	17.50	17.75	18.00	18.00	18.00	18.00	18.00

Key to data in tables

I. International markets

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

Categories of borrower

U.S. companies include both parent companies and their financing affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Country of borrower

The country of the borrower is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

International bond yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield.

The yield indices are simple arithmetic averages of end-of-month secondary market yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers. Occasionally the individual issues in each category are changed.

The number of issues represented in each of the indices is as follows:

Long-Term, U.S. companies, U.S. dollar — —ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc — four foreign bond issues.

Long-term, European companies, U.S. dollar — ten Euro-bond issues.

Long-term, European companies, German mark — ten Euro-bond issues.

Long-term, governments, U.S. dollar — six Euro-bond issues (governments of Italy, Denmark, and France).

Euro-currency deposit rates

All data are prime banks' bid rates for deposits in London. Offer rates commonly used as a basis for Euro-dollar lending are generally .125% above bid rates.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — Interbank call money.

Brazil — overnight financing of Treasury bills (LTN) until November 1978. New series as of December 1979, rates paid for federal funds.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Euro-dollars — prime banks' bid rate for overnight money.

Treasury bill rates

Argentina — 28-day Treasury bills.

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Brazil — 91-day Treasury bills (LTN).

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit.

Sweden — new issues of 3-month Treasury bills.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month negotiable certificates of deposit of investment banks net of taxes.

Canada — 3-month time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Key to data in tables — continued

Ireland — 3-month time deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 3-month time deposits until April 1979. New series as of May 1979, 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month time deposits. Higher rates may be negotiated for 12-month or more time deposits in large amounts.

Philippines — 3-month time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — deposits at 6-months' notice.

Switzerland — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for large amounts until December 1978. New series as of January 1979, similar rate for domestic depositors only.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — weighted average investment bank lending rate for multinational companies including tax on financial obligations (IOF).

Canada — prime rate.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .333% prior to July 1978, .25% thereafter, per quarter on the total line of credit.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — maximum legal rate for discounting commercial bills plus a commission of 1% per annum until December 1979. New series as of January 1980, preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — actual interest rate on 3-month loans to prime industrial borrowers.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

United Kingdom — clearing bank base lending rate.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for prime borrowers until December 1978. New series as of January 1979, similar rate for domestic prime borrowers only.

Domestic government bond yields

Argentina — 7% National Adjustable Bond, third series maturing in 1985, inflation adjusted by the Official Correction Index.

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 10% government bond maturing 1983 until December 1977; 10% government bonds maturing 1986 until September 1980. New series as of October 1980, 12% serial bonds maturing 2001.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

South Africa — 25-year government bonds.

Spain — 3- to 4-year government guaranteed bonds. Tax credit of 22% available to corporate and private buyers if held to maturity.

Sweden — 15-year government bonds.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Domestic corporate bond yields

Australia — long-term secured debentures, indicated by Australian United Corporation.

Belgium — Belgian National Bank average yield on private corporate bonds maturing in more than five years.

Canada — McLeod, Young, Weir Co. Ltd., average yield on ten industrial bonds.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — FAZ 6% industrial bond average until September 1978. New series as of October 1978, Bundesbank average yield on industrial bonds

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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Morgan Guaranty Trust Company of New York
J. P. Morgan International Finance N.V., Curaçao, Netherlands Antilles
Morgan Community Development Corporation, New York
Morgan Holdings Corp., Wilmington
Morgan Bank (Delaware), Wilmington
Morgan Trust Company of Florida N.A., Palm Beach
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Global debt: assessment and long-term strategy

The ramifications of the international debt problem and how to deal with it continue to be principal international financial issues. The first phase of dealing with the debt problem — the acute crisis atmosphere of last fall — is now behind us, as a result of quick and decisive actions on the part of governments, official institutions, and banks. The immediate liquidity problems were handled through the provision of short-term bridge financing, which has been followed by the adoption of IMF stabilization programs by a number of the major borrowers.

The second phase is now in progress. Some of the stabilization programs had to be drawn up hurriedly and therefore may require revision and strengthening as the passage of time permits better assessment of the nature of the problems and the initial policy responses. Indeed, for many developing countries it will take several years of perseverance to yield the needed current account adjustment and improvement in debt-servicing capacity. Therefore, it is necessary that a long-term strategy be developed for adequate financing of the deficits in the interim period.

This article identifies five key issues to be considered in developing such a strategy and evaluates the two principal approaches that have been presented so far. One approach stresses short-term, liquidity aspects of the international debt problem and focuses almost exclusively on the need for deflationary policies in the LDCs to promote balance of payments adjustment, whatever the prospects for OECD recovery. The other emphasizes longer-term, solvency aspects and seeks a solution that has an inflationary bias, in which industrial countries would pursue expansionary policies and portions of LDC debt would be written off or transferred to new institutions. Both approaches, however, suffer the drawback that they are disruptive to borrowers or to lenders, which could lead to a worsening of the present situation. The former approach risks forcing excessive costs on borrowers that would increase the chances of nonrepayment of interest or principal, while the latter destroys incentives for lenders to continue to provide additional financing.

A third strategy, therefore, has to be followed that more carefully balances the needs for adjustment and financing. Based on a disaggregated, country-specific analysis of the balance of payments and external debt prospects of 10 key LDC borrowers, it now appears that the duration of the problems facing several major LDC borrowers, especially those in Latin America, may take longer than was originally expected. A sustained OECD recovery averaging 3% per annum in the rest of this decade is an indispensable ingredient to resolve the international debt issue, but it may not be sufficient, by itself, to solve the problems of some of the major LDC borrowers in the next few years. There is also need for substantial LDC current account adjustment, not only through domestic-demand management in the next couple of years, but also through structural changes to increase LDCs' exports over the long term. The latter is vital to resumption of LDC economic growth.

As regards financing, two types of initiatives are called for. First, considering that it may well take the better part of this decade for some of the key LDC borrowers to reestablish regular access to credit markets, incentives are needed to assure that adequate bank financing is forthcoming in the interim. Second, ways must also be found for substituting nonbank sources of finance, especially long-term development assistance and foreign direct investment, for short- and medium-term bank credits in order to reduce the share of bank financing to the LDCs.

Dimensions of the problem

The difficulty of dealing with the international debt problem stems from the fact that it is a highly complex issue. One complication is the large number of countries involved. It has become a global issue that, directly or indirectly, affects almost all countries, borrowers and creditors alike. About 30 developing and Eastern-bloc countries are now in arrears or have sought debt renegotiation, and others are feeling the impact of the slowdown in international lending, cutbacks in short-term credits, and a stiffening in lending terms. The countries seeking debt renegotiations vary considerably with respect to the amount, structure, and composition of external debt, as well as to the need for debt relief, such that each country must be dealt with separately.

The problem is also complicated by the competing objectives that must be reconciled with one another: There is need for the LDCs to adjust and yet restore growth; there is also need for the banks to reduce concentrations of credit to certain countries, and yet to extend new loans to countries that merit support. The solution, therefore, requires treading a very narrow path between balance of payments adjustment and additional financing. Tilting too far in the direction of adjustment or financing may jeopardize the entire strategy. The solution also requires difficult judgments to be made about the extent to which a country can be expected to accept cutbacks in living standards without adverse effects on political and social stability. For these reasons, there is no quick or easy solution to the debt problem, which has at least five key aspects to be addressed.

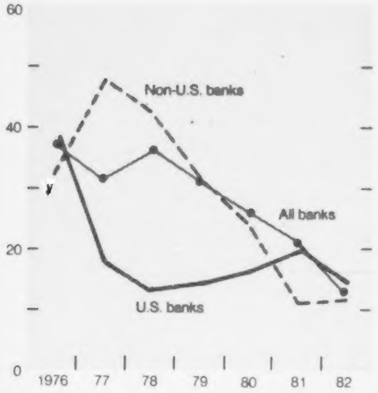
LDC debt-servicing capacity

One of the major reasons for the emergence of the international debt problem is that the external debt of the developing countries has risen faster than their exports, eroding their debt-servicing capabilities. For the 21 major LDC borrowers,

Chart 1

Growth of bank lending to all LDC borrowers

annual percent change in banks' claims in dollar terms



growth of external debt has averaged over 21% per annum since the mid-1970s and has slowed significantly only within the past year or so (see Chart 1). The debt buildup has been especially rapid for some of the relatively low-debt countries in the group such as Thailand, Ivory Coast, Nigeria, and Ecuador, where it has exceeded 30% per annum since the mid-1970s (see Table 1). It has also averaged close to 25% or more per annum for key borrowers such as Argentina, Mexico, Venezuela, South Korea, and the Philippines.

For the most part, LDC exports of goods and services kept pace with the debt buildup during the inflationary environment of the 1970s. However, exports slowed significantly in the 1980s and even fell in nominal terms in the past two years because of world recession and depressed commodity prices. Moreover, import adjustment, while significant in 1982, lagged the export downturn, and net interest payments for the group of 21 countries doubled, from $21 billion in 1980 to $43 billion in 1982, reflecting higher debt levels and interest rates. This contributed to a significant deterioration in the combined current account deficit of the major LDC borrowers and to a sharp rise in their total external debt in relation to exports of goods and services, from less than 125% in 1980 to nearly 180% in 1982 (see Chart 2). The debt buildup has been particularly great in Latin America, where it climbed to about 260% of exports in 1982. Argentina's debt/export ratio approached 390% then, while Brazil's stood at 345%.

While the developing countries require additional credit during the current adjustment phase, their external debt buildup needs to be brought more in line with their debt-servicing capabilities over the longer term. For the countries already experiencing debt-servicing problems, a reduction of their debt/export ratios is an important prerequisite to restoring regular access to credit markets. Clearly, there is no absolute theoretical level of the ratio that applies to all countries.* In the stock market, it is widely recognized that a firm with a high growth potential can have a larger price/earnings multiple than one with a low earnings growth potential. Similarly, a country with a high export-growth potential can have a comparatively large debt/export ratio without necessarily being a higher risk country. But, it must also be recognized that there are

Table 1

Growth of total external debt and exports for 21 major LDC borrowers

percent per annum

	Total external debt			*Exports of goods, services, and private transfers*		
	1976-80	*1981-82*	*1976-82*	*1976-80*	*1981-82*	*1976-82*
Latin America						
Argentina	28.1	19.4	25.6	25.6	—7.5	15.1
Brazil	24.4	14.3	21.4	18.7	1.5	13.5
Chile	16.2	24.0	18.4	28.0	—4.5	17.7
Colombia	15.1	12.1	14.2	21.8	—7.0	12.8
Ecuador	45.2	18.4	37.0	21.1	—5.6	12.8
Mexico	21.9	26.9	23.3	30.8	11.1	24.8
Peru	8.0	9.0	8.3	22.9	—7.6	13.3
Venezuela	40.9	12.9	32.2	17.1	—4.6	10.5
Asia						
Indonesia	13.3	12.3	13.0	25.9	—4.0	16.5
Korea	27.0	16.6	23.9	30.6	12.1	25.0
Malaysia	20.4	45.4	27.1	27.1	—4.0	17.3
Philippines	26.3	30.1	27.4	19.6	0.1	13.7
Taiwan	19.4	7.4	15.8	29.1	6.5	22.2
Thailand	40.7	16.2	33.2	23.2	3.9	17.4
Middle East and Africa						
Algeria	27.0	—3.2	17.5	23.2	—2.4	15.2
Egypt	22.8	18.6	21.5	27.8	—4.3	17.6
Israel	16.8	11.8	15.8	18.7	—0.3	12.9
Ivory Coast	39.4	24.7	35.0	20.0	—13.5	9.3
Morocco	33.2	18.2	28.7	11.3	—6.4	5.9
Nigeria	32.9	42.6	35.6	24.5	—26.6	7.0
Turkey	32.5	7.9	25.0	12.1	27.1	16.2

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*Some analysts contend that external debt should be measured relative to GNP rather than to exports. The latter is used in this analysis on the grounds that external debt must be serviced in foreign exchange, rather than local currency. Hence, exports are more relevant for measuring debt-servicing capacity and vulnerability to liquidity problems, especially in developing countries prone to inappropriate exchange rate policies and restrictions on trade and capital flows.

Chart 2

Debt/export ratios of 21 major LDC borrowers

external debt as % of goods and services

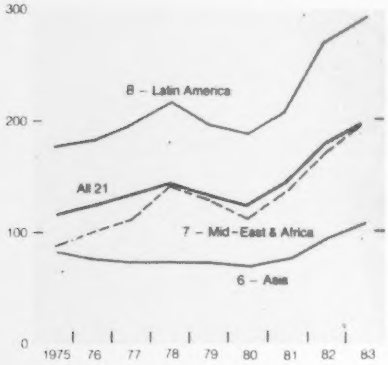

Table 2

Exports of goods, services, and private transfers as percent of nominal GNP

	1975	1982
21 major LDC borrowers	18	22
Latin America	11	15
Argentina	9	16
Brazil	8	8
Chile	26	24
Colombia	17	13
Ecuador	26	19
Mexico	7	17
Peru	13	20
Venezuela	37	30
Asia	28	34
Indonesia	23	22
Korea	30	44
Malaysia	47	53
Philippines	21	21
Taiwan	41	55
Thailand	21	25
Middle East and Africa	24	26
Algeria	37	35
Egypt	22	23
Israel	39	49
Ivory Coast	39	32
Morocco	28	26
Nigeria	28	22
Turkey	9	17

limits to a country's ability to service external debt. Thus, if a country with a high debt/export ratio does not have a corresponding high export-growth potential, the probability of encountering debt-servicing difficulties is greater.

The incidence of debt reschedulings has been considerably higher for countries with debt/export ratios that exceed 160%. Virtually every country whose ratio climbed beyond 200% at one time or another has been forced to reschedule portions of its debt. As the world economy enters a less inflationary environment in which bank credit expansion to LDCs is slower, the relevant threshold range indicating the likely onset of debt-servicing problems may be considerably below the 160%-200% range drawn from experience in the 1970s and early '80s.

LDC debt/export ratios can be improved through a slowdown in debt accumulation, an acceleration of exports, or both. With world recovery just getting under way and LDC exports still depressed, any improvement in the near future will probably have to come from a sharp slowing in debt accumulation brought about by a sizable reduction in LDC current account deficits. A current account reduction of about $20 billion is expected for the major LDC borrowers this year, reflecting further declines in merchandise imports and net interest payments. An additional current account improvement of about $14 billion is expected next year as LDC exports begin to recover.

Over the long term, export expansion holds the key to sustained LDC current account adjustment and improved debt-servicing capacity. OECD recovery clearly is essential to boost LDC exports, but there is also considerable room for many of the developing countries, particularly those in Latin America, to enhance their export potential through the adoption of realistic exchange rate policies and reduced reliance on import-substitution policies. As is shown in Table 2, exports of goods and services relative to GNP in the major Latin American countries are less than half of those of the major Asian LDC borrowers and well below those of the Middle East and African borrowers. A fundamental shift in commercial policies and exchange rate management in Latin America is needed to boost those countries' long-term export prospects.

Short-term debt

A significant part of the expansion of LDC external debt has been in the short-term area. As of year-end 1982, short-term debt (original maturity of one year or less) for the major LDC borrowers is estimated to have been over $130 billion, or one-quarter of their total external debt. There was a tendency in the past not to include short-term debt in external-debt calculations. This was partly because only very limited data on short-term debt were available. Also, such debt was assumed to be trade-related and, therefore, automatically rolled over. For a number of countries, however, as long- or medium-term debt became more expensive and less readily available, short-term debt was used increasingly for long-term balance of payments financing. Moreover, as total and short-term debt increasingly became a matter of concern, rollover proved to be far from automatic.

What is a proper level of short-term debt? Again, there are no hard and fast rules, although some rough guides need to be constructed based on international trade transactions. Capital goods imports typically account for 25%-35% of total LDC imports, and are financed chiefly by medium- and long-term

Table 3

External debt, total and short-term in relation to trade

billions of dollars

	Total external debt		Short-term debt[2]	
	end-1982	in excess of 200% of exports[1]	end-1982	in excess of 3-mo. imports[3]
21 major LDC borrowers	514.5	97.8	132.5	87.4
Latin America	288.1	80.7	75.7	59.2
Argentina	38.8	18.0	7.3	6.1
Brazil	86.3	34.3	16.7	11.9
Chile	17.2	4.9	3.2	2.3
Colombia	10.2	0.0	3.3	2.0
Ecuador	6.6	0.9	1.3	0.7
Mexico	84.6	20.4	25.8[4]	22.2[4]
Peru	11.2	2.2	3.2	2.3
Venezuela	33.2	0.0	15.0	11.7
Asia	108.8	2.7	29.0	10.6
Indonesia	21.9	0.0	2.9	0.0
Korea	37.2	0.0	10.4	4.6
Malaysia	8.6	0.0	1.7	0.0
Philippines	20.7	2.7	7.8	5.8
Taiwan	9.3	0.0	4.0	0.0
Thailand	11.1	0.0	2.2	0.2
Middle East and Africa	117.6	14.4	27.8	17.6
Algeria	14.8	0.0	0.7	0.0
Egypt	21.8	3.3	3.2	1.2
Israel	28.0	4.1	13.5	12.3
Ivory Coast	8.4	2.1	2.0	1.5
Morocco	10.8	2.4	1.0	0.1
Nigeria	11.2	0.0	3.0	0.0
Turkey	22.6	2.5	4.4	2.5

[1] Based on average 1982 debt level in relation to exports of goods and services.
[2] Original maturity of one year or less.
[3] 1982 merchandise imports.
[4] Includes nearly $10 billion of Mexican short-term debt that has now been restructured.

loans (e.g., World Bank project loans, Exim Bank loans, or suppliers' credits). The remaining imports normally are financed by short-term borrowings for up to 90-120 days on average. Some countries obtain a certain amount of pre-export financing, particularly for commodities such as oil and gold, which in effect speeds up the receipt of foreign exchange by exporters of such goods. Thus, after making allowance for such pre-export financing, which varies from country-to-country, and for the portion of imports financed by medium- and long-term loans, short-term debt generally should not exceed an amount equivalent to approximately three months of merchandise imports.*

As shown in Table 3, however, some countries' short-term debts have exceeded three months of imports, and have been well in excess of what is needed to cover trade requirements. The table also shows that some countries that do not have total debt in excess of the threshold ratio of 200% of exports have, however, accumulated "excess short-term debt."

Two conclusions follow from this assessment. First, restructurings or reschedulings are helpful in coping with liquidity problems arising from a bunching of debt-service payments by stretching out payments and buying time for adjustment programs to yield results. Most of the recent debt renegotiations have entailed reschedulings of amortization of medium- and long-term debt that fall due this year and that must be rolled over. Agreements by creditors to maintain existing levels of short-term credits have also been reached. So far, Mexico is the principal country to have portions of its short-term debt (nearly $10 billion) stretched out into credits of seven to eight years. Restructurings or reschedulings, however, will not solve problems of excessive debt, since they do not reduce a country's overall indebtedness, or affect its debt/export ratio.

Second, it is essential that information on short-term debt be provided on a much more timely and comprehensive basis so that both borrowers and lenders can be aware more promptly of developing problems. Also, there is need for the IMF to assist countries in formulating guidelines covering short-term debt accumulation and for banks to develop their own internal yardsticks to forestall over-reliance

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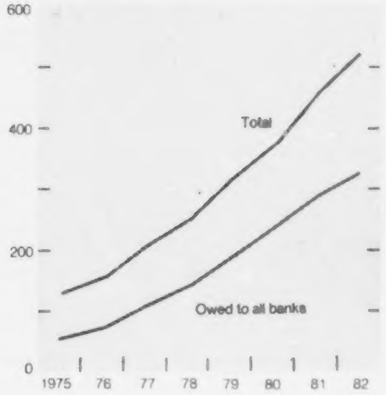
*While most major LDC borrowers are not important money centers, the commercial banks in a few LDCs have sizable foreign exchange assets in the form of redeposits related to their short-term foreign exchange liabilities, which also should be considered in assessing a country's gross short-term debt.

Chart 3

External debt of 21 major LDC borrowers

in billions of dollars



by LDCs on short-term debt.

Concentrations of bank credit

While many borrowing countries need to curb their debt/export ratios and reduce their reliance on short-term debt, commercial banks will be striving to lower ratios of LDC loans to bank capital. The growth of bank lending to all LDCs has averaged slightly over 20% per annum since 1975; it has been even higher, 25% per annum, to the major LDC borrowers. The initial surge after the first oil shock occurred during the 1974-75 recession. Lending by U.S. banks to the LDCs slowed considerably in the second half of the 1970s as private credit demand picked up in the United States (see Chart 3). Nonetheless, total bank credits to developing countries continued to expand rapidly, partly because of increased participation in international lending by non-U.S. banks, such as domestically oriented European banks, Japanese banks, and new Arab institutions. Lending by U.S. banks accelerated again toward the end of the decade, partly because a growing number of smaller, regional banks increasingly participated in international loan syndications.

Even with these new entrants, the rate of increase of bank lending to the LDCs outstripped the growth of bank capital, which for the major U.S. banks has been running in the vicinity of 9%-10% since the mid-1970s. (Data on bank capital for other countries are not comparable to those for U.S. banks.) The result was a substantial increase in loans outstanding to LDC borrowers in relation to U.S. bank capital and increased concentrations of credits to a few countries. As of mid-1982, credits to Mexico represented almost 50% of the capital of the nine largest U.S. banks, and those to Brazil and Argentina about 45% and 20% respectively. Together, credits to these three LDC borrowers constituted about 115% of capital of the largest U.S. banks, and roughly half of these banks' claims on LDCs.

While it is desirable to reduce lending concentrations in the future, it is also imperative that this be done within the context of a moderate expansion of new bank lending to the LDCs. IMF standby programs for some of the major LDC borrowers call for an overall expansion of new bank credits of at least 7% per annum in order to assure orderly balance of payments adjustment. Such targets may be difficult to achieve, considering that a number of smaller, regional U.S. banks, which account for about 20% of all U.S. bank loans to LDCs, and some non-U.S. banks have been reluctant to increase their LDC exposures. Should a number of these banks either hold exposures unchanged or reduce them, the remaining major U.S. and foreign banks would have to extend net new credits at a rate of 9%-10% per annum for the overall minimum target set by the IMF to be met.

In such circumstances, reductions in LDC loan/capital ratios for U.S. banks would hinge primarily on significant expansions of bank capital. If credits of the nine largest U.S. banks to the LDCs were assumed to expand at a rate of 10% per annum, and bank capital to grow at a 20% per annum rate, credits of these banks to the three principal LDC borrowers would decline from 115% to about 75% of their capital in five years.

Insufficient official financing and foreign direct investment

The rapid growth of bank lending to LDCs has resulted, in part, from the inability of official financing, bond issuance, and foreign direct investment to keep pace with LDC financing requirements. The propor-

Table 4

Impact on OECD of a uniform 3% cutback in LDC real GNP growth[1]

	Change in real GNP (%, 1983)	*Change in current account ($ billions, 1983)*
OECD	—0.8	—15
United States	—0.5	—5
Japan	—1.1	—3
Europe	—0.8	—7

[1] Assuming no compensating policy changes by industrial countries. If growth cutbacks are concentrated in Latin America, the adverse consequences are more severe for the United States, but less severe for Japan and Europe.

tion of net capital flows to all developing countries provided by these sources is estimated to have declined from almost 60% in the late 1960s and early 1970s to close to 40% recently. With the slowdown of bank lending to the LDCs, it is essential that more official, and long-term, financing be forthcoming to help reverse this trend.

One of the principal advantages of substituting official financing, bond issuance, or equity investment for bank lending is that many of the development projects undertaken by the LDCs require longer-term financing than can be extended by commercial banks. Hydroelectric dams, for example, may take seven to eight years to construct and have a payout period of about 20 years.

Increased foreign direct investment is vital because it provides a means for developing countries to finance their current account imbalances without adding to their immediate external debt burden. The balance of payments cost incurred in the form of profit remittances is directly related to the commercial success of a venture. Developing countries increasingly seem to recognize these advantages, with net direct investment flows to all LDCs from industrial countries rising from about $2 billion in 1970 to nearly $15 billion in 1982, of which over a third is accounted for by the 21 major LDC borrowers. This represents an average annual increase of 17% in nominal terms and 6% in real terms. In part, the increased emphasis on foreign direct investment reflects growing disenchantment with socialist experiments in a number of LDCs. Nonetheless, it may be difficult to sustain this real rate of increase in the future, considering the diminished growth prospects of many LDCs and the stiff competition they face from industrial countries, which receive about two-thirds of all foreign direct investment inflows.

Need to restore LDC growth

The debt issue is further complicated by the fact that there is need to restore LDC economic growth as soon as possible, while LDC debt/export ratios and bank credit concentrations are being reduced. There has been little or no economic growth in Latin America over the past two years after having averaged about 5½% per annum in the 1970s. Several countries such as Argentina and Chile, already have experienced very sharp reductions in real GNP, and Brazil and Mexico face declines of 3%-6% this year. The LDCs are a significant market for industrial-country products, accounting for nearly 40% of U.S. exports (nearly 3% of GNP) and 28% of OECD exports (over 4% of GNP). Reductions in their import demand necessitated by the slowdown in international lending contributed to delaying U.S. economic recovery last year and could dampen the upturn. A uniform 3% cutback in LDC growth, for example, is estimated to lower OECD growth by 0.8% and U.S. growth by 0.5% (see Table 4). The impact on the United States would be even greater if cutbacks were concentrated in Latin America, as has been the case.

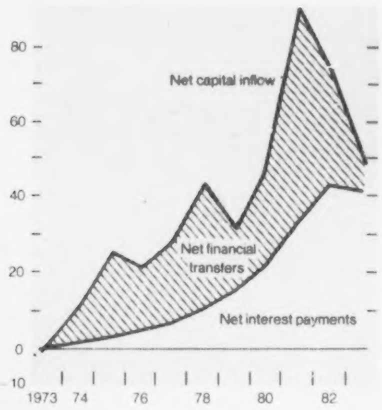
There are also important political and strategic interests at stake. Considering the slowing of LDC economic growth that has already taken place, especially in Latin America, further substantial cutbacks in living standards could increase political and social tensions. Unduly harsh adjustment, in turn, would raise the risks of a moratorium on repayment of principal or interest, particularly if new financing also dried up.

To reduce these risks, therefore,

Chart 4

Net financial transfers to LDCs

in billions of dollars



the aim should be to resume LDC economic growth within a couple of years and to ensure that additional bank and official financing is forthcoming. If LDC debt accumulation is to slow relative to exports, however, the adjustment process implies that an increasing share of LDC exports rather than new borrowings would be used to meet interest payments. Hence, net financial transfers (net capital inflows minus net interest payments) must, at some point, turn negative. Such transfers to the 21 major LDC borrowers have averaged about $25 billion per annum since the mid-1970s (see Chart 4), but they are expected to drop to only about $3 billion this year and to turn negative thereafter. This swing, from a sizable positive position to a large negative position, is likely to imply sustained lower LDC economic growth, unless one of several developments occurs such as: (1) a substantial increase in LDC savings rates by amounts equivalent to 3%-4% of their GNP and/or increased productivity growth resulting from improved domestic resource allocation; (2) lower interest rates in the industrial countries, which would reduce the implied real resource transfer from the LDCs to the industrial countries; and/or (3) a sharp boost in LDC exports brought about by changes in LDC economic policies, faster world economic growth, and more open access to LDC products in industrial-country markets.

External debt and financing prospects

The need to formulate a long-term strategy to deal with the international debt problem reflects a judgment that it will take substantial time — perhaps five years or longer — for developing countries, especially those with high debt/export ratios, to regain more regular market access. This assessment is based on balance of payments models for ten key LDC borrowers individually and for a composite of the 21 principal LDC borrowers.

The base-case assumptions about world economic conditions shown in Table 5 are:

1. A moderate OECD recovery that begins in 1983 and gathers strength in 1984-85, averaging 3½% per annum, with 3% per annum growth thereafter.
2. Industrial-country inflation, as measured by wholesale manufactures' prices in local currency terms, that rises gradually from an average of 4% in 1983 to 6% per annum in 1985 and thereafter.
3. Some softening of the dollar later this year and continuing into 1984-85, but which still leaves the dollar about 10% above its 1975-79 average on a real effective basis.
4. Interest rates, as represented by LIBOR for 6-month Eurodol-

Table 5

Base case: global assumptions

% changes unless otherwise noted

	1983	1984	1985	Annual averages 1986-1990
OECD real GNP growth	2.0	3.5	3.5	3.0
OECD inflation (manufactures prices, $ terms)	4.0	8.0	8.0	6.0
OECD inflation (local currency terms)	4.0	5.0	6.0	6.0
Dollar effective exchange rate change	0	—5.0	—3.0	0
6-month LIBOR (Eurodollars, %)	9.25	8.5	9.0	9.0
Oil prices (OPEC average, $/barrel)	28	29	32	0% p.a.[1]
Non-oil commodity prices	2	12	10	1.4[1]
Foods	—2	11	8	2[1]
Tropical	—6	12	10	2[1]
Grains and feeds	3	9	7	2[1]
Industrial products	13	15	12	0[1]
Metals	18	19	13	0[1]
Fibers	4	6	11	0[1]

[1] In real terms.

Table 6

21 major LDC borrowers: current account and external debt in base-case scenario

	Current account							
	$ billions				% of exports[1]			
	1982	1983	1985	1990	1982	1983	1985	1990
21 major borrowers	—61	—41	—28	—34	—22	—15	—8	—5
Argentina	—2.4	—0.6	—0.7	2.3	—25	—5	—5	9
Brazil	—16.3	—7.2	—6.0	—3.5	—69	—29	—20	—6
Chile	—2.4	—0.7	0.1	0.0	—41	—11	1	0
Colombia	—2.3	—1.8	—0.9	—0.8	—44	—39	—16	—7
Mexico	—2.7	—3.0	—0.9	—4.6	—8	—9	—2	—5
Venezuela	—3.5	—1.2	—2.3	—5.9	—17	—7	—12	—19
Indonesia	—6.6	—6.7	—3.3	—5.3	—32	—39	—14	—14
Korea	—2.5	—2.6	—1.5	3.0	—9	—9	—4	4
Philippines	—3.3	—2.9	—2.0	—2.7	—41	—32	—17	—13
Turkey	—1.4	—0.6	—1.4	—1.1	—14	—5	—10	—4

	External debt							
	$ billions (end of period)				% of exports[2]			
	1982	1983	1985	1990	1982	1983	1985	1990
21 major borrowers	514	557	619	822	178	196	166	123
Argentina	38.8	41.8	44.7	44.6	388	349	302	179
Brazil	86.3	94.9	104.7	121.9	345	367	333	219
Chile	17.2	18.3	17.8	17.7	285	258	187	116
Colombia	10.2	9.9	11.1	14.4	186	216	183	132
Mexico	84.6	91.0	95.5	116.7	253	269	199	124
Venezuela	33.2	31.6	37.5	69.6	155	195	190	213
Indonesia	21.9	26.2	33.4	52.9	98	137	135	133
Korea	37.2	40.7	47.0	50.5	121	130	111	64
Philippines	20.7	22.5	25.0	30.6	233	239	197	143
Turkey	22.6	23.6	25.7	33.7	226	216	184	130

[1] Exports of goods and services.
[2] Average debt for year as percent of exports of goods and services.

lars, that decline to an average of 8½% next year and to average 9%, or 3% in real terms, in the second half of the 1980s.

5. Oil prices, as measured by the effective average OPEC price, that average $28/barrel in 1983, rise to $32 by 1985, and remain constant in real terms thereafter.
6. Prices of non-oil commodities, as measured by a composite dollar index, that increase by about 25% between 1982 and 1985, which would reverse more than two-thirds of their nominal decline between 1980 and 1982. In real terms, they would recover only one-quarter of their 1980-82 decline of 21% by 1985 and about two-thirds by the end of this decade.

Under these conditions, it is estimated that exports of goods and services of the 21 major LDC borrowers would grow at an average rate of 11½% per annum in the rest of this decade. With imports declining again in 1983 and increasing only 10% next year, their aggregate current account deficit is projected to drop by about $34 billion, from $61 billion in 1982 to $27 billion in 1984. In relation to exports of goods and services, the current account deficit would fall sharply, from 22% in 1982 to 9% in 1984, and continue declining to about 5% in the latter part of this decade (see Table 6). Total external debt in relation to exports, however, would fall more gradually, from nearly 180% in 1982 to about 165% in 1985 and about 125% by 1990.

The overall results for major LDC borrowers are quite sensitive to changes in key assumptions about world economic conditions from those used in the base case. Table 7 indicates the results of alternative assumptions for individual variables, rather than depicting alternative scenarios in which several variables are changed simultaneously. As shown in the table, the greatest sensitivity is to the OECD growth rate, where a 1% change from the base case beginning in 1984 can affect the current account balance by about $11 billion (or 3% of exports) in 1985 and approximately $85 billion (14% of exports) by 1990. The debt/export ratio would scarcely improve during the remainder of the decade if the OECD growth rate were 1% lower than in the base case. The results are also very sensitive to a 1% per annum change in the terms of trade after 1983, particularly as the effects accumulate through the remainder of the decade. A 20% change in oil prices

Table 7

21 major LDC borrowers: sensitivities to changes in assumptions from base case[1]

	Current account							
	$ billions				*% of exports*[2]			
	1982	*1984*	*1985*	*1990*	*1982*	*1984*	*1985*	*1990*
Base case	—61	—27	—28	—34	—22	—9	—8	—5
OECD real GNP growth rate								
+1% point		—23	—17	54		—7	—5	7
–1% point		—31	—38	—112		—10	—11	—20
Terms of trade								
+1% p.a.		—24	—21	18		—8	—6	3
–1% p.a.		—30	—37	—89		—10	—10	—14
Oil prices								
+20%		—17	—15	—2		—5	—4	—0
–20%		—37	—41	—65		—13	—12	—11
LIBOR								
–2% points		—17	—17	—17		—6	—5	—3
+2% points		—37	—39	—56		—12	—11	—9

	External debt							
	$ billions (end of period)				*% of exports*[3]			
	1982	*1984*	*1985*	*1990*	*1982*	*1984*	*1985*	*1990*
Base case	514	582	619	822	178	182	166	123
OECD real GNP growth rate								
+1% point		578	605	568		178	158	80
–1% point		585	632	1055		185	174	173
Terms of trade								
+1% p.a.		578	608	660		181	164	102
–1% p.a.		585	630	993		182	168	144
Oil prices								
+20%		575	600	687		171	154	99
–20%		588	638	957		194	180	149
LIBOR								
–2% points		572	598	728		181	163	110
+2% points		592	640	930		182	170	137

[1] Changes in assumptions apply from 1984.
[2] Exports of goods and services.
[3] Average debt for year as percent of exports of goods and services.

from those assumed in the base case likewise has significant effects. For the 21 major borrowers the net effect of higher oil prices is favorable, reflecting the fact that the benefits are heavily concentrated among the nine net oil exporters in the group. By contrast, the unfavorable consequences for net oil importers are more widely dispersed. A two-percentage-point change in interest rate levels after 1983 has a strong immediate impact on current account performance, although over time the effects are less pronounced than those from the 1% change in OECD growth rate, the 1% per annum change in terms of trade, or a 20% change in oil price levels.

While the baseline results for the major LDC borrowers in the aggregate indicate an overall improving trend in both current account and debt ratios, there are important differences among individual borrowers. The current account performances of most of the ten individual borrowing countries shown in Table 6 improve substantially by 1985. The deficits of Argentina, Mexico, and South Korea narrow to 5% or less of exports, and Chile moves into equilibrium. Current account improvements notwithstanding, debt/export ratios for many of the ten countries shown in the table exhibit only limited declines between 1982 and 1985, indicating that considerable time is required, even under moderately favorable conditions, to reduce relative debt burdens. By the end of this decade several of the major borrowers would still have debt/export ratios close to or exceeding 200%.

Under the baseline scenario, the additional external debt buildup of the 21 major LDC borrowers is estimated to exceed $300 billion in the remainder of the 1980s, or nearly $40 billion per annum. This compares with debt buildup of $385 billion from 1975 to 1982, or $55 billion per annum. The projections imply an average growth of LDC external debt of about 6% per annum (virtually no growth in real terms), or about one-quarter of the annual rate of increase since the mid-1970s. But there is considerable country variation, ranging from a low of less than 1% per annum in nominal terms to a high of nearly 12% per annum.

If there were no change from the

past and banks were counted on to provide about two-thirds of the LDC financing, the bank debt of the major borrowing countries would rise by close to $200 billion over the rest of this decade, or roughly $25 billion per annum. That would imply close to a 7% per annum rate of expansion for bank lending, and a 9%-10% rate for the larger U.S. banks in the event they covered shortfalls of the smaller, regional banks. As indicated earlier, however, the nonbank share of financing to the developing countries needs to be expanded to provide more long-term development assistance. Without additional official assistance and foreign direct investment, financing to the LDCs could fall short of that envisioned in the baseline scenario, considering the reluctance of smaller, regional banks to extend new credits to LDCs and the desire of the larger banks to reduce credit concentrations.

Although there would be faster LDC current account and debt/export improvement under more favorable global economic assumptions, and correspondingly lower LDC financing requirements, it is important to keep in mind that the baseline scenario presented is relatively optimistic. It assumes that the remaining impediments to OECD economic recovery are overcome and are followed by a period of steady economic growth, moderate inflation, and no rise in interest rates. There could well be favorable surprise developments in the LDCs, such as reflows of previous flight capital in some countries or greater upturns in individual commodity prices than those envisioned. But, on the negative side, allowance should be made for adverse developments such as upturns in interest rates, a dollar that remains strong for a longer period than in the base case, or political setbacks in developing countries, each of which could affect LDC repayment prospects and banks' willingness to lend. Counting on a more optimistic appraisal than that assumed in the base scenario for policy decisions would be attempting to wish the international debt problem away.

Alternative strategies

The various proposals that deal with the international debt problem fall into two basic classes. One is a relatively optimistic, laissez-faire school that assumes the current debt situation is a fairly short-term liquidity issue to be solved primarily through deflationary policies in the LDCs designed to promote balance of payments adjustment. Such adjustment, together with prospects for some OECD recovery, would provide the needed boost in LDC exports and current account improvement. Some proponents feel that banks would resume new lending fairly quickly even if some losses are incurred on existing obligations. Accordingly, advocates of this proposal downplay the need for stepped-up official assistance other than on a strictly temporary basis.

The principal advantage of this approach is that it properly stresses the importance of LDC adjustment or internal policies and recognizes the impressive long-term benefits that can be reaped through sound economic policies in these countries. Experience has demonstrated that, particularly in a favorable external environment, an individual country's overall payments position can improve significantly within a couple of years following the adoption of sound adjustment programs. This was true of Turkey, which adopted an austere stabilization program in a favorable environment of rapidly expanding Middle Eastern export markets. Such programs are essential to restore confidence in a borrowing country and to create incentives for banks to commit new funds.

However, heavy reliance on deflation as a solution entails high risk. The strategy stresses the need to slow LDC debt accumulation through current account adjustment. Its chief shortcoming is underestimating the time required to reduce the relative debt burdens of several of the major LDC borrowers in an environment where many countries must settle for relatively low economic growth. Furthermore, as Turkey's experience attests, even when there is substantial current account improvement it still may take considerable time for countries to regain more regular access to financial markets. By ignoring long-term structural elements of the international debt problem or overstating the prospects for global recovery, this approach risks forcing excessive deflationary costs on borrowers. It is also overly optimistic about market forces providing ample new financing.

At the other extreme are proposals that reflect a pessimistic view of the LDC debt situation. Their proponents see the situation essentially as structural, and not solvable in a relatively short period by LDC adjustment or modest OECD recovery. Because of the time required, their main concern is that current reliance on IMF adjustment programs will unduly jeopardize economic growth prospects in the LDCs, creating political and social strains in those countries, and in turn adversely affect industrial-country growth. Accordingly, they seek to eliminate the debt overhang fairly quickly, by writing off, and/or transferring sizable amounts of LDC debt to new institutions. At the same time, they seek to step up official assistance through various means, including SDR creation, to deal with shortages of international liquidity. They also stress the need for the industrial countries to adopt more expansionary policies to promote a strong recovery even if it generates higher OECD inflation.

The virtue of this more inflationary approach is that it recognizes the severity and duration of the debt problem, considering the impediments to sustained LDC adjustment and OECD recovery. Its main shortcoming is that, since writing off portions of existing obligations would be extremely costly to lenders and impair banks' capital, it would jeopardize new flows of money to the LDCs and to domestic borrowers, as well. Choking off new loans has the risk of precipitating crisis situations, rather than avoiding them, in effect turning good debt into bad debt. The proposals also tend to understate budgetary restraints in the industrial countries that limit new infusions of official funds. Furthermore, they tend to ignore important differences among developing countries, applying the same treatment to all borrowers, irrespective of the need for debt relief. As a result, there would be strong incentives for countries to seek debt relief even when they do not need it.

A third course

Given the shortcomings of the two alternative approaches outlined above, there is growing awareness of the need to develop a third course that takes positive elements from the two former approaches and strives for a more careful balance between adjustment and financing. Such a strategy was discussed and endorsed by leaders of the major industrial nations at the Williamsburg summit. However, specific details have yet to be worked out.

Several key elements need to be incorporated in this third course. One is moderate OECD recovery. Another is recognition that considerable time will be required for some high-debt LDCs to reduce their debt/export ratios. A third is for the LDCs to pursue restrictive demand-management policies over the next couple of years to achieve a "front-end" loading of current account adjustment, although over the longer term adjustment efforts must also entail more export-oriented policies in the LDCs and greater access to industrial-country markets. A fourth element is creation of positive incentives for banks to provide additional financing to LDCs, rather than imposition of such disincentives as existing obligations. Finally, it is important that bank financing increasingly be supplemented by additional official assistance, not merely to address temporary balance of payments needs, but also for longer-term development.

The success of this long-term strategy very much hinges on rebuilding lenders' confidence in the prospects of the developing countries' ability to service their external debt. Above all, the participants must have confidence that the type of scenario portrayed in the base case is attainable, and not wishful thinking. As regards OECD growth, there are still considerable doubts about the prospects for sustained recovery. Although U.S. recovery appears on track and monetary policy has been highly accommodative, there is still uncertainty about the direction of U.S. interest rates because of the prospective large U.S. budget deficits. Moreover, economic policy and outlook in Europe and Japan are not as promising as in the United States. Europe is plagued by high and rising unemployment, large budget deficits in some countries, and considerable wage rigidities. Also, a European economic recovery is highly contingent on Germany, where modest growth is foreseen. In Japan economic growth is well below potential, and signs of recovery are still quite faint. However, in both Germany and Japan fiscal policies are slated to be tightened. Given the substantial economic slack in both countries and their relatively strong balance of payments positions, the overall thrust of economic policies in those countries could be more mildly expansionary for the time being without rekindling inflation or inflationary expectations. At the same time, it is essential that open market-access be assured for developing-country products, so that the LDCs can reap the benefits of industrial-country growth.

Beyond this, lenders must have confidence that adjustment efforts in the developing countries will be sufficient to bring debt levels more in line with debt-servicing capabilities. For the proposed strategy to work, it is particularly important that current account adjustment be heavily concentrated in the next couple of years, as called for in the baseline scenario. Since interest payments compound over time, a slowing of the LDC debt buildup in the next few years can reap more-than-proportionate gains in reductions of debt/export ratios in later years, thereby paving the way for a much quicker restoration of market access and economic growth. In this regard, comprehensive adjustment measures and resolute implementation of IMF stabilization programs are indispensable to rebuilding confidence and to attracting private capital. In the same vein, programs that do not deal adequately with the need for adjustment, or with which compliance is lax, can only erode confidence and hinder a return of capital.

With the IMF now more involved in the major borrowing countries, it acts as a catalyst to assure new bank financing. Accordingly, the Fund's role vis-à-vis the borrowing countries can be expected to change, so that it provides those countries with more regular guidance than in the past on appropriate debt levels, both total and short-term, as well as on policies that will enhance export prospects. To be effective both with borrowers and lenders, however, the Fund must have adequate resources. The proposed 47% increase in IMF quotas and enlarged General Arrangements to Borrow (GAB), therefore, are absolutely essential. Furthermore, when the quota increase takes effect, the countries' access to the IMF should not be scaled back from the present 450% of quota, so as to permit them to return to the IMF for a second time.

While the IMF can provide leadership in marshaling balance of payments support to developing countries, it is particularly important that increased long-term development assistance from the World Bank and other multilateral lending institutions be forthcoming. In recent calls for a new Bretton Woods system, too much emphasis seems to be placed on the need to reform the exchange rate system, and insufficient attention has been devoted to the critical issue of development finance and the need to expand the activity of the World Bank and the various regional development assistance institutions. Considering that the debt problems of some LDCs could well take most of this decade to resolve, development finance can no longer be neglected. A first step would be to advance the timing of the planned doubling of the capital of the World Bank, which is now slated for 1986.

Ways must also be found to increase the leverage of both the IMF and World Bank to induce new flows of bank credits to the LDCs without tapping the budgets of the member countries. Current reliance on moral suasion and arm-twisting may work in an emergency period, but will not ensure adequate bank financing when countries do not have regular access to bank credit.

Both institutions could consider new ways of encouraging banks to supply additional financing. Although in the past some of the resources of the World Bank and Fund were set aside to assist the poorest countries, through the establishment of IDA in the World Bank and the Trust Fund in the IMF (which was financed out of profits derived from sales of IMF gold), thought should also be given to aiding the hard-hit higher- and middle-income LDCs. Some of the IMF's assets conceivably could be set aside for developing countries to establish an insurance pool to provide backing for portions of international loans to LDCs called for as part of IMF-stabilization programs. Developing countries would pay insurance premiums, but receive a lower LIBOR spread because of the IMF guarantee. The objective of such an arrangement would be similar to that of IMF borrowing from private markets, but it would have the advantage of keeping channels of private credit open directly to the LDCs. Similarly, a way of expanding World Bank activity would entail participation with banks in Eurocurrency syndications, possibly through the creation of a new subsidiary. Credits extended would be at commercial rates and tied to World Bank project loans. In the event a country failed to meet regular payments on such credits, disbursement of ongoing World Bank project loans to the country would be halted, creating strong incentives for these credits to be serviced. Such schemes not only would help stimulate further commercial bank money, but particularly, close ties with the World Bank would help promote project-related lending and improve control over the use of loans to the benefit of economic growth in the borrowing countries.

Steps also have to be taken to ensure that additional foreign direct investment is forthcoming. The baseline scenario projects such flows to the major LDC borrowers to double, from over $5½ billion in 1982 to $11-$12 billion at the end of the decade. This would represent an average annual increase of about 10% in nominal terms and 3%-4% in real terms, but a higher rate would be desirable. In this regard, the IMF and World Bank could play useful roles in advising LDCs on appropriate tax, pricing, and exchange rate policies to attract foreign capital. Beyond this, there is need to clarify and strengthen rules and institutional arrangements to protect foreign investment from government intervention, possibly within an internationally negotiated framework.

Compared with the alternative strategies, the third course that has been outlined is the least disruptive to both lenders and borrowers. It allows for gradual reductions of LDC debt/export ratios and concentrations of bank credits to LDCs. It calls for concerted action on the part of all the participants to resolve the debt problems of most of the LDCs within a five-year span or by the end of this decade for some of the high-debt LDCs. Adherence to this long-term strategy would require the major LDC borrowers to pursue economic policies to reduce their current account deficits — with the goal of cutting their combined deficit roughly in half in the next couple of years — and to build their long-run export potential. Such efforts need to be aided by policies in the industrial countries that would open markets for LDC products and provide for noninflationary growth. The banks would be expected to supply additional financing and to restructure, but not reduce, existing obligations, while official institutions would provide increased long-term assistance to LDCs, gradually reducing the share of LDC financing provided by the banks. In all this, skillful and cooperative management is required on the part of governments, banks, and official institutions. For while the international debt situation is manageable, it will not manage itself.

Statistical appendix

for key to data in tables see May 1983 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Effective exchange rates

Index numbers, March 1973=100. The index of the effective exchange rate for a currency is a measure of that currency's trade-weighted average appreciation or depreciation vis-à-vis the currencies of 15 other major countries. The exchange rates used in the construction of this index are the averages of daily noon spot exchange rates in New York for months and for weeks ending on dates shown. The trade weights used are based on 1976 bilateral trade in manufactures.

		United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
pre-June 1970 parities		118.5	94.9	79.3	116.2	91.6	97.5	110.9	95.9	98.2	88.3	97.8	97.9	98.1	102.2	92.2	98.4
Smithsonian central rates		107.0	101.3	88.7	116.0	95.4	96.1	108.3	97.0	99.1	91.6	98.0	96.0	96.3	100.5	91.7	98.1
1982																	
June		118.8	80.2	112.9	78.5	142.0	78.9	45.0	95.4	121.6	178.1	123.8	82.5	110.1	81.9	80.2	61.4
July		119.9	80.7	112.1	78.8	142.6	76.8	45.1	95.6	122.0	179.7	124.1	82.0	108.8	82.0	79.3	61.1
August		119.8	82.5	110.9	78.9	142.8	76.5	45.0	95.3	122.8	179.6	124.3	81.7	104.2	82.7	77.3	61.2
September		120.4	83.3	109.7	79.2	143.2	75.8	45.0	94.8	123.6	179.1	124.6	81.3	102.0	82.6	76.4	61.4
October		121.9	83.9	107.2	80.0	144.3	76.0	44.7	94.5	124.9	179.4	125.4	83.4	102.1	73.0	76.5	61.1
November		121.9	84.3	110.9	77.6	144.8	76.3	44.2	94.6	125.3	179.3	125.9	84.7	103.1	70.3	76.6	59.6
December		118.7	83.0	119.5	74.1	147.3	77.5	44.7	94.9	125.7	184.5	127.1	86.2	102.7	69.3	76.0	54.2
1983																	
January		117.1	83.5	123.7	71.4	147.5	77.6	45.0	95.1	126.4	191.4	127.0	86.8	101.9	69.2	76.3	53.4
February		118.3	83.8	122.9	70.4	147.6	77.7	44.9	95.0	126.3	189.7	127.0	86.5	102.6	69.3	76.0	52.9
March		119.3	84.1	122.9	69.0	150.2	76.6	44.2	96.2	126.6	186.4	128.7	86.7	102.4	69.4	70.2	51.9
April		119.9	83.7	123.7	72.0	150.6	74.1	44.2	95.6	125.0	189.1	128.0	86.6	103.2	69.6	68.7	51.5
May		119.6	83.9	125.3	74.0	149.8	73.6	44.1	95.0	124.7	190.2	127.5	85.4	103.8	69.8	69.2	51.1
May	6	119.4	84.1	124.4	74.0	150.2	73.6	44.1	95.3	124.9	189.2	127.7	85.8	103.6	69.6	68.5	51.2
	13	118.9	84.0	126.5	73.3	150.4	73.7	44.1	95.1	124.9	191.3	127.6	85.8	103.7	69.5	68.8	51.1
	20	119.6	83.8	126.1	73.3	149.9	73.6	44.1	95.0	124.8	190.5	127.5	85.5	103.8	69.8	69.6	51.0
	27	120.2	83.7	124.7	75.0	149.3	73.5	44.0	94.7	124.3	189.8	127.1	84.7	103.9	70.0	69.7	51.0
June	3	121.0	83.9	124.0	76.1	148.6	73.0	43.9	94.4	123.9	189.9	126.7	84.0	104.5	70.3	70.0	50.8

Real effective exchange rates

Index numbers, March 1973=100. The index of the real effective exchange rate is the index of the effective exchange rate adjusted for inflation differentials which are measured by wholesale prices of nonfood manufactures. Exchange rates and trade weights used in the construction of this index are the same as those used for effective exchange rate indices. Annual figures are averages of months.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
1979	95.9	92.1	95.4	117.3	103.2	98.2	92.5	95.6	100.1	116.3	107.5	100.5	92.5	98.8	88.0	136.7
1980	97.4	91.2	93.1	136.9	100.3	99.5	95.1	90.0	98.0	105.8	107.8	93.0	94.6	100.1	89.4	135.0
1981	108.2	91.4	93.8	139.9	94.8	97.9	90.6	84.4	95.9	105.0	106.1	88.9	99.0	101.0	98.6	129.2
1982	116.9	91.7	82.8	135.2	96.4	95.6	89.5	77.7	100.6	109.2	108.0	87.1	100.6	95.9	100.9	128.7
1982																
May	112.3	92.0	85.8	133.5	96.8	99.8	89.2	77.5	99.9	108.2	108.1	86.7	103.4	97.5	101.1	130.9
June	118.2	89.3	81.9	135.5	96.8	95.7	88.6	77.3	101.0	107.0	108.0	86.4	103.2	97.7	102.8	129.7
July	120.0	89.3	80.7	136.2	96.9	93.5	89.1	77.3	100.9	107.3	108.2	85.9	101.9	98.3	102.4	129.2
August	120.1	90.8	79.9	136.5	96.8	92.8	89.6	77.3	101.2	107.3	108.2	86.2	97.8	99.2	100.8	129.6
September	119.3	93.1	79.1	137.5	96.9	92.1	89.9	76.8	101.7	107.2	108.1	86.0	96.6	99.1	100.2	130.9
October	122.2	92.4	76.5	138.8	97.2	93.1	89.2	76.0	102.0	107.3	108.2	88.5	96.5	90.2	99.9	130.4
November	122.6	92.2	79.0	135.2	97.0	93.3	89.5	76.1	102.2	107.4	108.5	89.1	97.5	88.3	99.7	128.6
December	119.3	91.0	84.7	130.4	98.1	95.1	90.5	76.6	101.8	109.4	110.0	90.2	97.3	87.3	99.1	118.9
1983																
January	116.8	92.0	87.6	126.2	98.1	95.0	91.7	77.0	102.1	113.2	110.3	90.9	96.9	88.2	100.5	118.5
February	117.7	92.5	86.9	124.7	97.6	95.5	91.6	77.1	101.6	112.2	110.6	91.1	98.4	88.0	101.6	119.1
March	117.9	93.9	86.8	122.6	99.0	94.9	90.4	78.2	101.4	110.2	111.9	91.2	97.6	88.3	93.6	117.4
April	117.9	93.4	87.2	128.6	98.7	93.0	90.7	77.6	99.6	111.1	111.7	90.9	98.3	89.7	92.1	118.3
May	117.2	93.8	88.2	132.8	97.8	92.1	90.8	77.4	99.1	111.5	111.5	89.5	99.4	90.4	93.1	118.9

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, and Singapore billions of dollars (rounded to nearest $5 billion), at end of period

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	
										Sep	Dec
Estimated size											
Gross	315	395	485	595	740	950	1 235	1 525	1 860	2 015	2 055
Liabilities to nonbanks	55	80	90	115	145	190	260	345	440	475	485
Liabilities to central banks	40	60	65	80	100	115	145	150	130	105	90
Liabilities to other banks[a]	220	255	330	400	495	645	830	1 030	1 290	1 435	1 480
Net	160	220	255	320	390	495	590	730	890	940	960
Claims on nonbanks	70	105	130	165	210	265	330	425	530	575	595
Claims on central banks and on banks outside market area[b]	70	95	105	130	150	185	200	230	275	275	270
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	20	25	30	45	60	75	85	90	95
Eurodollars as % of gross liabilities in all Eurocurrencies	74	76	78	80	76	74	72	75	78	81	79

[a] includes unallocated liabilities
[b] includes unallocated claims
[c] in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1979	1980	1981	1982			1983				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Eurodollar:											
overnight	14.00	19.25	12.87	9.50	8.88	9.25	8.63	8.63	9.13	8.75	8.88
7-day fixed	14.00	19.75	13.00	9.50	9.00	9.25	8.75	8.63	9.25	8.75	8.88
one month	14.37	19.12	13.31	9.62	9.38	9.13	9.00	8.56	9.44	8.94	9.13
three months	14.44	17.55	13.75	10.00	9.88	9.19	9.25	8.75	9.63	8.88	9.44
six months	14.44	16.37	14.81	10.19	10.13	9.50	9.56	8.88	9.75	9.06	9.63
twelve months	12.87	14.87	14.75	10.50	10.38	9.63	9.75	9.13	9.94	9.25	9.81
Euromark:											
one month	8.50	8.87	10.44	7.00	7.19	5.88	5.63	5.38	4.81	4.88	4.94
three months	8.56	8.87	10.50	7.00	7.06	5.88	5.63	5.25	4.94	5.00	5.06
six months	8.56	8.87	10.56	7.00	7.06	5.94	5.69	5.38	5.13	5.06	5.25
twelve months	8.12	8.93	10.25	6.94	7.00	6.00	5.88	5.50	5.38	5.31	5.69
Euro-Swiss franc:											
one month	5.19	6.00	8.87	3.00	3.94	2.81	2.38	2.88	3.81	4.31	4.75
three months	5.75	6.00	9.25	3.56	4.06	3.25	2.75	3.00	3.88	4.38	4.75
six months	5.87	5.75	9.25	4.12	4.06	3.44	3.38	3.38	3.88	4.38	4.75
twelve months	5.56	5.50	8.50	4.19	4.19	3.44	3.56	3.63	3.94	4.38	4.63
Eurosterling:											
one month	16.75	14.75	15.37	9.88	10.44	10.56	11.50	11.38	10.75	10.25	10.25
three months	16.75	14.75	15.69	9.44	10.44	10.44	11.50	11.25	10.69	10.19	10.25
six months	16.75	14.25	15.69	9.44	10.38	10.31	11.44	13.19	10.63	10.06	10.25
twelve months	15.25	14.00	15.37	9.44	10.31	10.31	11.25	10.75	10.56	10.00	10.31
Euro-French franc:											
one month	13.87	11.12	15.75	20.00	19.50	23.00	16.00	21.50	12.13	12.38	12.50
three months	14.00	11.75	17.00	20.00	19.75	24.00	20.00	23.00	12.31	12.88	13.38
six months	14.12	12.25	18.00	20.00	20.38	22.00	20.00	21.25	13.75	14.38	15.75
twelve months	13.75	12.87	18.25	19.00	20.00	19.75	18.00	18.38	15.00	16.00	17.25
Euroyen:											
one month	7.82	9.12	6.12	6.75	7.31	6.75	6.56	6.69	6.38	6.13	6.31
three months	8.31	9.25	6.12	6.88	7.25	6.75	6.56	6.63	6.38	6.19	6.31
six months	8.62	9.62	6.87	6.94	7.19	6.81	6.50	6.50	6.38	6.19	6.31
twelve months	7.94	9.37	6.87	7.00	7.19	6.81	6.63	6.56	6.44	6.38	6.38

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	1981[r]	1982[r]	1983			Jan-May	
				Mar[r]	Apr[r]	May[p]	1983	1982
Industrial countries	**39 100**	**86 022**	**42 725**	**3 998**	**2 604**	**1 899**	**14 981**	**16 227**
Australia	2 475	1 680	4 721	155	362	304	1 301	3 002
Canada	1 743	4 112	3 838	—	—	—	—	1 900
Denmark	1 720	1 661	789	—	—	158	1 458	727
France	1 745	3 912	5 653	140	—	—	590	975
Greece	1 333	1 039	770	500	26	—	546	550
Ireland	237	1 361	401	—	500	—	541	154
Italy	6 268	6 030	3 657	470	—	326	1 232	1 840
Norway	685	713	2 069	204	82	—	286	230
Portugal	745	1 590	1 388	—	300	—	300	821
Spain	5 457	3 242	1 799	96	114	600	1 639	816
Sweden	1 370	1 367	649	460	—	—	2 060	125
United Kingdom	1 470	747	1 635	272	—	33	344	543
United States	6 719	54 784	6 566	558	1 030	340	2 528	2 449
Others[a]	7 133	3 284	8 790	1 143	190	238	2 156	2 095
Developing countries	**35 054**	**45 264**	**41 423**	**1 066**	**1 588**	**2 917**	**20 070**	**20 665**
Non-OPEC countries	24 009	33 394	28 703	831	885	2 917	16 927	15 752
Argentina	2 506	2 534	1 565	—	—	—	—	465
Brazil	4 158	5 751	5 716	25	—	—	4 475	2 410
Chile	1 322	2 204	1 194	—	—	1 300	1 300	390
Colombia	608	1 030	741	—	100	—	100	493
Korea	1 917	2 824	2 923	40	—	392	1 262	1 212
Malaysia	—	1 725	1 909	—	50	250	860	155
Mexico	5 971	7 530	7 953	100	—	—	5 100	6 853
Peru	480	1 407	1 069	—	—	450	466	839
Philippines	1 056	1 257	635	252	—	100	685	292
Taiwan	314	928	255	46	100	—	346	—
Other	5 677	6 204	4 743	368	635	425	2 333	2 643
OPEC countries	11 045	11 870	12 720	235	703	—	3 143	4 913
Ecuador	1 209	934	815	—	—	—	—	565
Indonesia	1 435	725	1 250	20	—	—	1 146	368
Nigeria	1 330	1 802	2 042	—	—	—	33	402
United Arab Emirates	101	363	93	—	—	—	690	13
Venezuela	6 715	7 559	6 799	—	—	—	237	3 259
Other	255	497	1 721	215	703	—	1 037	306
Communist countries	**2 809**	**1 791**	**765**	**18**	**15**	—	**233**	**374**
China	181	370	43	—	—	—	—	—
East Germany	303	470	8	—	—	—	—	—
Hungary	550	550	340	18	15	—	233	—
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	—	—	—	—	374
International organizations[c]	**429**	**302**	**150**	—	—	—	**21**	**150**
TOTAL	**77 392**	**133 379**	**85 063**	**5 082**	**4 207**	**4 816**	**35 305**	**37 416**

[a] Includes multinational organizations
[b] Includes COMECON institutions
[c] Includes regional development organizations
[p] preliminary
[r] revised

International bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982				1983			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
U.S. companies:											
U.S. dollar	10.13	11.76	12.70	12.92	11.63	11.32	11.28	10.46	10.24	10.09	9.90
Swiss franc	6.61	7.27	7.30	5.94	5.74	5.74	5.76	5.63	5.72	5.66	5.71
European companies:											
U.S. dollar	10.93	12.42	14.29	13.73	12.81	12.37	12.45	11.60	11.37	11.37	11.17
German mark	7.55	8.79	9.36	8.24	8.23	8.31	8.17	8.15	7.98	7.49	7.16
Governments:											
U.S. dollar	10.66	11.83	13.59	13.30	12.62	12.00	12.51	12.07	11.25	11.17	11.09

New international bond issues*

new issues in period, in millions of dollars

	1980	1981	1982r	1983			Jan-May	
				Mar	Aprr	Mayp	1983	1982
By type:								
Eurobonds, total	**23 970**	**31 616**	**50 365**	**3 180**	**5 082**	**3 823**	**22 356**	**27 006**
by category of borrower								
U.S. companies	4 107	6 178	12 596	546	575	585	2 659	8 175
Foreign companies	9 032	12 882	13 231	1 426	2 330	1 560	8 158	5 674
State enterprises	5 839	7 496	13 538	1 023	1 282	1 418	6 920	7 784
Governments	3 045	2 629	7 624	63	368	260	3 223	3 808
International organizations	1 947	2 431	3 376	122	527	—	1 396	1 565
by currency of denomination								
U.S. dollar	16 427	26 830	42 930	2 489	4 096	3 217	18 038	23 345
German mark	3 607	1 277	2 487	258	570	356	2 237	1 065
Dutch guilder	1 043	529	645	111	27	—	325	340
Canadian dollar	279	634	1 181	139	122	49	436	934
European composite units	65	309	1 827	94	37	83	784	711
Other	2 549	2 037	1 295	89	230	118	536	611
Foreign bonds outside the United States, total	**14 521**	**13 817**	**19 879**	**2 045**	**2 568**	**1 559**	**11 764**	**9 578**
by category of borrower								
U.S. companies	307	592	1 971	15	267	—	568	954
Foreign companies	3 157	3 384	4 184	821	861	486	4 413	1 846
State enterprises	2 830	3 701	5 429	301	351	593	2 266	2 534
Governments	4 086	2 762	3 494	505	231	170	1 675	2 033
International organizations	4 141	3 378	4 801	403	858	310	2 842	2 211
by currency of denomination								
German mark	4 839	1 310	2 745	331	357	162	1 583	1 437
Swiss franc	7 617	8 285	11 129	1 005	1 639	920	7 439	5 591
Dutch guilder	259	481	957	205	100	108	581	370
Japanese yen	1 088	2 457	3 418	420	336	276	1 734	1 689
Other	718	1 284	1 630	84	135	93	426	491
Foreign bonds in the Unites States, total	**3 429**	**7 552**	**5 946**	**409**	**400**	**725**	**2 548**	**2 127**
by category of borrower								
Canadian entities	2 136	4 630	3 180	109	300	200	1 193	1 584
International organizations	550	1 375	1 700	—	100	400	900	400
Other	743	1 547	1 066	300	—	125	455	143
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**61 518**	**4 927**	**6 419**	**5 187**	**30 905**	**31 254**
Australia	539	991	2 167	68	100	70	611	880
Austria	1 859	1 557	1 668	334	90	184	764	1 090
Canada	3 797	10 648	11 759	592	922	739	3 940	5 721
Denmark	1 125	695	1 019	199	81	165	875	690
Finland	392	672	815	—	172	82	460	386
France	2 820	3 156	7 402	387	1 121	742	4 887	4 034
Italy	904	1 108	2 263	—	—	101	334	1 146
Japan	5 309	6 928	8 213	1 070	1 855	1 219	7 367	3 704
Netherlands	1 585	630	865	112	98	18	321	263
New Zealand	293	1 107	1 375	218	46	—	448	526
Norway	892	530	832	—	50	—	250	246
Sweden	3 244	2 050	2 729	287	85	—	2 081	1 483
United Kingdom	1 733	1 408	1 281	52	125	332	633	162
United States	5 587	6 770	14 567	561	842	585	3 227	9 129
Developing countries	**2 485**	**4 769**	**4 930**	**182**	**121**	**210**	**600**	**3 116**
Non-OPEC countries	1 942	4 338	3 890	145	120	210	562	2 448
Brazil	349	60	91	—	—	—	—	73
Korea	68	323	172	41	40	93	244	92
Mexico	544	3 012	1 919	—	—	—	—	1 551
OPEC countries	543	431	1 040	37	—	—	37	668
Venezuela	398	291	385	—	—	—	—	285
Communist countries	**65**	**75**	**65**	—	**25**	—	**25**	**65**
International organizations	**6 638**	**7 163**	**9 677**	**525**	**1 485**	**710**	**5 138**	**4 176**
TOTAL	**41 920**	**52 985**	**76 190**	**5 634**	**8 050**	**6 107**	**36 668**	**38 611**

*Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.

Central bank discount rates

	1979	1980	1981	1982			1983	Current	
	end Dec	end Dec	end Dec	end Jun	end Sep	end Dec	end Mar	Jun 7 1983	effective since
United States	12.00	13.00	12.00	12.00	10.00	8.50	8.50	8.50	Dec 15, 82
Canada	14.00	17.36	14.66	16.58	12.98	10.26	9.51	9.53	Jun 2, 83
Japan	6.25	7.25	5.50	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	17.00	14.00	14.37	12.50	10.00	10.00	10.56	10.00	Apr 14, 83
Belgium	10.50	12.00	15.00	14.00	12.50	11.50	11.00	9.50	May 5, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	0.00	7.50	7.50	7.50	7.00	5.00	4.00	4.00	Mar 16, 83
Italy	15.00	16.50	19.00	19.00	18.00	18.00	18.00	17.00	Apr 11, 83
Netherlands	9.50	8.00	9.00	8.00	7.00	5.00	3.50	4.50	May 3, 83
Austria	3.75	6.75	6.75	6.75	6.25	4.75	3.75	3.75	Mar 16, 83
Denmark	11.00	11.00	11.00	11.00	11.00	10.00	8.50	7.50	Apr 21, 83
Finland	8.50	9.25	9.25	8.50	8.50	8.50	8.50	8.50	Jun 1, 82
Ireland	16.40	12.75	17.15	18.30	14.55	14.35	14.35	14.35	Dec 23, 82
Norway	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	Nov 30, 79
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.00	12.00	11.00	10.00	10.00	10.00	9.00	8.50	Apr 8, 83
Switzerland	2.00	3.00	6.00	5.50	5.00	4.50	4.00	4.00	Mar 16, 83
Argentina	89.90	87.01	98.50	87.23	128.54	128.54	128.54	128.54	Sep 30, 82
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	7.00	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	11.00	13.00	14.00	14.00	14.00	13.00	13.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1979	1980	1981	1982				1983			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	13.78	18.90	12.37	10.31	9.71	9.20	8.95	8.68	8.51	8.77	8.80
Canada	13.83	15.61	14.53	13.58	12.10	10.91	10.63	9.75	9.60	9.40	9.41
Japan	8.02	9.49	6.70	6.99	6.92	6.68	6.92	6.64	6.57	6.69	6.30
Australia	7.84	9.51	12.84	13.23	13.27	12.52	11.04	9.84	10.70	10.61	11.15
United Kingdom	14.87	13.00	9.13	9.80	8.56	8.33	6.70	10.81	10.81	7.50	7.63
Belgium	10.65	9.68	12.78	10.52	11.13	10.51	9.43	9.80	9.97	11.82	9.83
France	12.17	10.87	15.46	14.11	13.91	13.18	12.88	12.71	12.77	12.84	12.55
Germany	9.15	9.13	10.65	7.96	7.48	7.02	6.07	5.91	5.70	5.49	4.93
Italy	16.00	17.50	20.63	18.63	18.63	18.86	19.00	19.00	19.00	19.00	18.00
Netherlands	15.67	8.37	10.67	7.33	7.23	6.13	5.31	5.10	4.96	4.41	5.18
Austria	8.50	11.50	7.50	7.75	6.25	6.38	6.00	5.88	5.88	5.38	4.88
Finland	13.53	12.50	11.30	11.45	11.70	11.50	11.50	11.00	12.00	13.00	13.00
Ireland	16.88	13.31	16.88	16.00	13.13	15.50	14.54	15.38	13.94	17.63	15.25
Spain	9.61	16.74	18.73	13.78	20.54	23.18	20.30	16.60	17.20	17.68	20.38
Sweden	11.99	11.41	13.82	15.22	13.30	12.51	8.63	4.62	10.55	11.20	11.00
Switzerland	1.25	5.75	3.38	2.25	1.87	1.38	1.25	1.38	1.50	3.13	3.88
Argentina	78.22	70.84	84.93	127.09	135.66	132.70	155.32	154.38	159.38	180.22	196.18
Brazil	37.51	62.71	103.74	108.40	125.22	136.85	150.42	119.23	125.22	164.70	n.a.
Hong Kong	14.19	14.05	10.75	9.37	11.05	11.13	9.13	7.13	10.40	9.63	10.40
Korea	15.00	14.82	14.40	13.39	13.58	13.75	13.84	13.25	13.30	13.70	13.60
Philippines	16.25	15.70	14.70	12.68	13.01	10.90	16.12	11.43	14.29	14.58	n.a.
Singapore	10.17	10.23	3.96	5.67	6.16	5.34	11.45	8.22	5.88	6.04	9.96
South Africa	3.81	5.60	12.34	14.85	14.45	13.50	12.90	9.70	9.57	8.25	9.71
Eurodollars	14.41	19.22	12.29	10.52	9.88	9.40	9.15	8.72	8.73	8.86	8.90

Treasury bill rates

bond-equivalent yields, at or near end of month

	1979	*1980*	*1981*	*1982*				*1983*			
	Dec	*Dec*	*Dec*	*Sep*	*Oct*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*
United States	12.39	14.87	11.90	7.64	8.13	8.10	8.15	8.23	8.03	8.93	8.34
Canada	13.66	17.01	14.41	12.73	11.21	10.72	9.80	9.58	9.23	9.17	9.12
Japan	5.68	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	9.31	12.17	13.27	11.62	13.72	12.98	9.39	11.05	14.95	14.11	11.14
United Kingdom	16.45	13.45	15.31	9.99	9.14	8.94	9.90	10.58	10.73	10.41	9.75
Belgium	14.40	12.75	16.00	12.75	12.75	12.25	12.25	12.25	12.25	12.00	10.35
Ireland	16.37	12.84	17.35	14.48	12.74	12.87	14.70	15.38	13.76	14.39	13.81
Italy	15.62	16.87	21.36	17.67	18.05	19.09	19.11	19.09	19.09	18.88	18.27
Netherlands	12.75	8.00	9.75	7.00	6.50	5.88	5.63	5.38	5.00	4.50	6.50
Spain	15.00	17.20	15.83	15.15	16.79	17.38	16.96	17.06	16.99	16.56	18.11
Sweden	9.74	12.87	9.20	10.26	10.26	9.20	8.18	7.14	7.14	7.13	7.13
Argentina	71.04	66.19	77.10	133.36	133.36	133.36	133.36	110.39	159.38	n.a.	n.a.
Brazil	31.68	110.60	110.21	135.53	132.91	132.91	n.a.	n.a.	n.a.	n.a.	n.a.
Korea	19.53	16.35	16.00	14.40	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Mexico	17.89	27.73	33.22	49.72	43.02	51.26	57.44	59.56	60.90	n.a.	n.a.
New Zealand	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	12.00
Philippines	12.63	12.74	13.40	14.30	14.32	14.48	14.53	14.54	14.54	14.55	n.a.
Singapore	6.18	6.77	3.03	3.09	2.96	3.07	2.74	3.05	3.07	2.59	2.59
South Africa	4.30	6.31	14.55	16.12	16.06	15.12	14.62	12.70	9.79	11.35	11.53

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1979	*1980*	*1981*	*1982*				*1983*			
	Dec	*Dec*	*Dec*	*Sep*	*Oct*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*
United States	13.70	17.62	12.78	10.26	8.68	8.68	8.81	8.29	8.30	9.34	8.56
Canada	14.15	17.50	15.25	12.95	11.65	11.00	9.95	10.00	9.40	9.45	9.30
Japan	8.01	9.80	6.30	7.05	6.89	7.06	6.80	6.51	6.69	6.57	6.20
Australia	10.30	13.00	16.00	14.10	15.50	13.30	10.65	11.30	16.00	16.25	12.90
United Kingdom	17.00	14.75	15.69	10.56	9.56	10.38	10.50	11.56	11.31	10.69	10.19
Belgium	14.45	13.10	16.00	13.00	12.85	12.50	12.35	12.35	12.25	12.25	10.45
France	12.62	11.56	15.25	13.81	13.06	12.94	12.75	12.63	12.94	12.70	12.31
Germany	8.70	10.20	10.50	8.00	7.33	7.25	6.20	5.90	5.68	5.30	5.18
Ireland	18.12	13.63	18.50	15.38	13.69	13.63	15.75	16.13	13.94	15.25	15.25
Italy	17.12	17.37	21.00	18.50	18.50	18.80	19.00	18.88	19.00	19.00	17.75
Netherlands	13.00	9.37	11.00	8.00	6.38	6.75	5.25	5.00	4.50	4.25	6.00
Spain	13.20	17.40	15.52	13.91	17.30	19.27	16.55	16.53	16.82	15.86	18.91
Switzerland	6.12	7.50	10.12	4.62	3.75	4.25	3.88	2.88	3.25	4.00	4.50
Hong Kong	14.37	17.69	14.18	10.00	11.00	11.25	10.13	8.75	8.50	9.50	10.06
Korea	19.53	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	16.00	14.25	16.05	17.75	18.00	17.25	16.75	16.25	14.00	14.00	14.00
Philippines	10.41	15.01	17.61	16.50	15.89	16.00	15.91	15.53	15.90	15.78	n.a.
Singapore	10.12	14.12	7.81	7.69	7.69	7.31	8.69	7.94	7.06	6.56	7.38
South Africa	4.72	7.12	15.47	17.10	17.21	15.75	15.26	13.33	10.41	12.11	12.16

Commercial bank deposit rates

at or near end of month

	1979	1980	1981	1982				1983			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	13.55	16.25	12.62	9.75	9.15	8.70	8.25	8.50	8.35	9.15	8.40
Canada	14.05	17.00	15.20	12.85	11.60	10.95	9.85	9.90	9.35	9.40	9.25
Japan	8.37	9.00	6.50	7.30	7.27	7.15	7.00	6.80	6.86	6.98	n.a.
Australia	10.25	12.71	15.65	14.69	14.96	14.56	10.20	10.80	15.07	15.48	12.82
United Kingdom	16.81	14.87	15.69	10.81	9.50	10.44	10.31	11.63	11.25	10.75	10.19
Belgium	14.50	12.63	15.50	12.75	12.50	12.25	12.25	12.25	12.25	12.88	10.38
France	12.50	11.25	9.16	8.53	8.43	8.19	8.24	8.24	8.24	8.24	8.24
Germany	7.75	8.00	9.50	7.00	6.60	6.50	6.00	5.25	5.10	4.75	4.75
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	13.50	9.50	11.00	7.88	6.38	6.75	5.38	5.00	4.50	4.25	4.25
Austria	8.50	11.25	9.63	8.25	7.75	7.13	6.25	6.00	6.00	5.50	5.25
Denmark	10.00	10.00	10.00	10.00	10.00	9.00	9.00	9.00	9.00	7.50	6.50
Finland	4.25	5.00	5.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Ireland	17.87	13.63	18.38	15.25	13.63	13.50	15.25	16.00	13.75	15.13	14.75
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	4.50	11.78	12.33	13.04	13.03	12.53	12.23	12.42	n.a.	n.a.
Sweden	8.75	9.75	10.25	9.50	9.50	9.50	9.50	8.50	8.50	8.50	8.00
Switzerland	4.75	7.50	8.75	3.25	3.00	3.00	3.00	2.00	2.00	2.75	3.50
Argentina	72.64	72.00	86.76	85.16	85.16	103.42	103.42	127.75	121.66	121.66	121.66
Brazil	55.55	96.49	110.05	103.18	107.53	122.51	118.26	116.21	117.61	119.29	n.a.
Hong Kong	9.25	13.00	12.50	9.00	9.00	8.50	7.50	7.50	7.50	7.50	8.50
Korea	15.00	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	16.75	26.15	31.81	49.75	45.32	45.50	52.54	59.66	59.90	n.a.	n.a.
New Zealand	15.90	13.50	15.50	16.50	16.50	16.50	16.50	15.25	13.00	12.75	12.75
Philippines	10.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	10.31	13.19	7.50	7.31	7.00	7.00	8.25	7.31	6.75	6.19	6.88
South Africa	4.82	7.87	14.75	16.50	16.53	15.18	15.25	13.43	10.63	12.00	12.25
Venezuela	15.00	16.00	14.75	14.50	15.00	15.00	15.50	16.00	16.50	16.00	16.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1979	1980	1981	1982				1983			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	15.25	21.50	15.75	13.00	12.00	11.50	11.50	11.00	10.50	10.50	10.50
Canada	15.00	18.25	16.50	15.00	13.75	13.00	12.50	12.00	11.50	11.50	11.00
Japan	6.51	8.16	6.95	6.31	6.31	6.29	6.28	6.28	6.27	6.30	6.30
Australia	10.75	13.50	15.75	17.00	16.50	16.50	15.00	14.00	14.00	16.00	15.75
United Kingdom	18.00	15.00	14.50	10.00	9.50	10.00	10.00	11.00	11.00	10.50	10.00
Belgium	15.25	15.75	18.00	16.00	16.00	15.50	15.50	15.50	15.50	15.00	14.00
France	12.50	12.25	14.00	13.25	12.75	12.75	12.25	12.25	12.25	12.25	12.25
Germany	9.75	11.50	13.00	10.50	10.50	10.00	8.75	8.75	8.75	7.75	7.75
Italy	19.50	20.50	22.50	20.75	20.75	20.75	20.75	20.75	20.00	20.00	19.50
Netherlands	15.00	10.75	12.00	8.75	8.00	7.25	6.25	6.25	6.00	5.00	5.75
Austria	8.50	12.50	13.50	11.50	11.50	11.75	11.75	11.00	11.00	11.00	9.75
Denmark	13.75	13.75	15.00	15.50	15.50	14.00	14.00	14.00	14.00	12.00	11.00
Finland	9.06	9.83	9.84	8.97	8.97	8.95	8.95	8.99	8.97	8.95	8.97
Ireland	16.00	14.50	17.25	16.50	16.50	16.50	16.50	16.50	16.50	17.50	16.25
Norway	11.00	12.50	13.75	14.00	14.00	14.50	14.50	14.50	14.50	14.50	14.50
Spain	9.00	18.50	17.04	16.04	18.35	20.39	19.00	18.34	18.48	17.65	19.27
Sweden	10.75	11.75	13.50	12.50	12.50	12.50	12.50	11.50	11.50	11.50	11.00
Switzerland	5.00	5.75	8.00	6.50	6.50	6.50	6.00	6.00	6.00	5.50	5.50
Argentina	80.00	77.00	92.60	97.33	97.33	109.50	109.50	139.92	133.83	133.83	175.00
Brazil	59.60	96.45	138.09	151.80	151.80	162.30	166.49	162.56	181.18	190.83	n.a.
Hong Kong	14.50	17.00	16.00	12.00	12.00	11.00	10.50	10.50	10.50	10.50	11.50
Korea	18.50	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	19.00	24.25	31.81	47.88	45.99	45.51	46.12	50.29	52.12	54.24	54.16
New Zealand	11.75	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	16.00	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	9.50	13.60	11.83	10.03	9.75	9.33	9.33	9.53	9.25	9.10	9.03
South Africa	9.50	9.50	17.00	20.00	20.00	18.00	18.00	17.00	16.00	14.00	14.00
Venezuela	13.00	15.00	15.50	16.00	16.50	16.50	17.00	17.50	18.00	17.50	17.50

Domestic government bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982				1983			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	10.20	11.46	14.33	11.50	10.79	10.74	10.61	10.98	10.57	10.85	10.52
Canada	11.32	12.69	15.27	13.48	12.63	12.18	11.69	12.28	11.80	11.70	11.18
Japan	8.63	9.04	8.32	8.46	8.50	8.32	7.76	7.89	8.07	7.80	7.77
Australia	10.08	13.00	15.00	14.50	14.25	14.40	13.00	12.75	14.75	15.00	13.85
United Kingdom	13.83	13.05	15.02	10.74	10.04	10.95	10.62	11.56	10.88	10.52	10.28
Belgium	11.13	13.04	13.99	13.20	13.23	12.87	12.66	12.48	12.60	12.49	11.59
France	12.59	14.31	16.44	15.76	15.81	15.79	15.40	14.99	14.25	14.65	14.55
Germany	7.91	9.19	9.71	8.00	8.27	8.19	7.90	7.93	7.71	7.61	7.74
Italy	14.00	16.23	21.39	19.18	19.38	19.90	19.62	19.33	19.24	18.76	18.21
Netherlands	9.29	10.48	11.28	10.00	9.26	8.92	8.16	8.24	8.06	8.19	8.83
Austria	8.20	9.62	10.37	9.59	9.24	8.99	8.81	8.32	8.24	8.18	8.09
Denmark	18.28	19.98	20.91	22.83	21.16	20.81	20.14	18.55	15.89	15.16	14.27
Finland	9.58	10.42	10.98	10.64	10.62	10.68	10.64	10.58	10.70	10.59	10.58
Ireland	16.64	15.63	18.28	15.17	13.95	15.53	14.54	14.98	14.26	13.96	n.a.
Norway	10.04	10.44	12.37	13.27	13.29	13.32	13.32	12.75	13.00	13.00	n.a.
Spain	n.a.	n.a.	12.50	12.50	12.75	12.75	12.75	12.75	12.75	12.75	12.75
Sweden	11.22	12.61	12.80	13.27	13.73	13.09	13.01	13.10	12.83	12.59	12.22
Switzerland	4.20	4.63	5.40	4.43	4.31	4.27	4.22	4.22	4.23	4.46	4.42
Argentina	47.94	36.84	107.98	188.74	242.86	135.02	159.88	n.a.	n.a.	n.a.	n.a.
New Zealand	12.98	12.99	12.55	12.94	12.82	12.96	12.84	12.77	12.95	n.a.	n.a.
Philippines	13.20	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	9.32	11.81	13.62	12.72	12.19	11.80	11.31	10.58	11.40	12.17	12.26
Venezuela	7.29	7.39	12.50	13.25	13.50	14.00	15.00	15.00	15.00	15.50	15.75

Domestic corporate bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982				1983			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	10.75	13.00	15.50	12.88	12.00	11.75	11.75	11.88	11.53	11.63	11.00
Canada	12.07	13.62	16.48	14.78	13.61	13.58	13.05	13.54	12.99	12.92	12.29
Japan	8.34	8.60	7.70	8.05	8.10	8.10	7.55	7.25	7.26	7.39	n.a.
Australia	11.65	14.25	16.50	16.75	16.75	16.75	15.00	15.00	16.00	16.25	16.00
United Kingdom	14.96	14.21	16.55	12.51	11.68	12.34	12.34	12.85	12.69	12.34	12.14
France	12.92	15.23	17.33	16.83	16.42	16.33	15.91	15.64	15.12	15.03	14.87
Germany	8.20	9.50	10.50	9.30	8.90	8.50	8.20	7.90	7.70	7.60	7.30
Netherlands	9.95	10.71	11.03	10.19	9.34	8.49	7.80	8.01	7.92	7.86	8.65
Norway	10.53	11.24	13.36	14.04	14.46	11.69	14.13	13.75	13.75	13.75	n.a.
Spain	14.20	14.82	14.76	18.36	17.90	17.33	17.10	16.49	16.72	17.02	n.a.
Sweden	10.21	11.95	12.94	12.97	13.16	13.33	13.37	13.39	13.06	13.34	12.85
Switzerland	5.53	5.63	6.60	6.08	5.96	5.89	5.92	5.89	5.88	5.93	5.98
Korea	27.80	28.20	27.00	15.00	15.30	15.90	15.90	15.10	15.00	14.40	14.00
Venezuela	14.55	16.15	17.00	17.50	17.75	18.00	18.00	18.00	18.00	18.00	18.25

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World Financial Markets

Morgan Guaranty Trust Company of New York

July 1983

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The firm dollar

The dollar has maintained a very firm tone in recent weeks, rising about 2% on a trade-weighted basis against other major currencies since mid-May (see Table 1). Interest rate developments, both actual and expected, have been the driving force behind the dollar's rise. For the time being, at least, current account trends are taking second place to portfolio considerations in exchange market thinking.

Interest rate differentials have widened in favor of the dollar because rate movements abroad have lagged increases in the United States (see Chart 1). U.S. money market rates have risen by about 50 basis points (see Table 2). In view of the rapid growth of the narrow money supply, the continued large federal budget deficits, and the mounting evidence of vigorous economic recovery, expectations now center on the potential for still-higher U.S. interest rates.

M1 has been growing much faster than expected. Through late June, M1 grew by 13.7% at an annual rate from its fourth-quarter 1982 base, significantly above not only the Fed's annual 4%-8% target (see Chart 2), but also the March-June interim target. Because "normal" relationships between M1 and the economy have failed over the past year or so, the Federal Reserve now emphasizes the wider monetary aggregates. Through May both M2 and M3 were very close to the upper ends of their target ranges.

Most observers, as well as some Administration officials, assert that the Federal Reserve cannot long tolerate the surge in M1 growth against a background of accelerating economic activity. Several Reserve Board members also are concerned. Thus, to curb M1 growth, reserve availability may have to be restricted and interest rates rise further.

Adding to the expectations of higher interest rates has been the lack of meaningful headway toward reducing the federal deficit. Despite stronger-than-expected economic recovery, expenditure estimates are rising almost as fast as revenue projections, holding prospective deficits practically unchanged. Although some analysts question the existence of a direct connection between budget deficits and interest rates, concerns about crowding out of private credit demands have a key psychological influence on interest rate expectations and contribute to the current high level of interest rates in real terms.

The economic recovery has turned vigorous, with second-quarter real

Table 1

Exchange rate changes

	Jun 30, 1983 (units per U.S.$)	% change vis-à-vis dollar*	
		Since mid-Dec 1982	Since mid-May 1983
German mark	2.54	—4.2	—3.1
Japanese yen	239	+2.1	—2.5
British pound**	1.53	—5.3	—1.5
Swiss franc	2.10	—1.0	—2.5
French franc	7.62	—10.4	—3.1
Dutch guilder	2.85	—6.3	—3.1

*Positive number indicates appreciation.
**U.S. dollars per foreign unit.

Chart 1

Eurodollar interest differentials

based on three-month Eurocurrency deposit rates, in percent

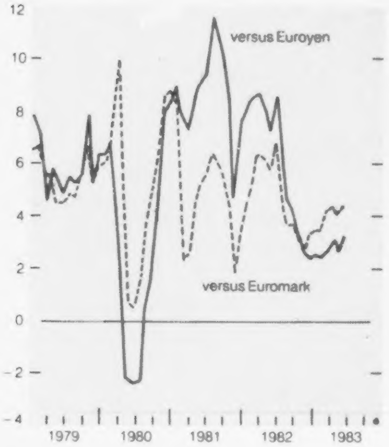


Table 2

United States interest rates (mid-month)

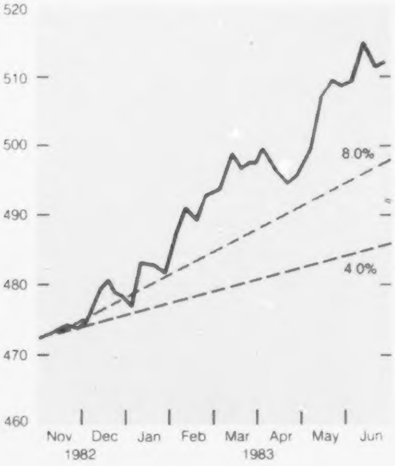
percent per annum

	Dec 1982	May 1983	Jun 1983
Fed funds	8.86	8.59	8.84
3-month Treasury bills	8.11	8.45	8.97
1-year Treasury notes	8.76	8.91	9.46
5-year Treasury notes	10.37	10.22	10.46
20-year Treasury bonds	10.95	10.78	10.90

Chart 2

U.S. M1 money supply and target ranges

in billions of dollars



GNP growth conservatively estimated at a 6.6% annual rate. While half of that growth may have emanated from a slowing in business inventory liquidation, final demand also picked up. Consumer spending is accelerating, housing activity is very strong, and business equipment investment, which was expected to be a drag on recovery this year, is strengthening. The strong performance of the stock market is further evidence of confidence in the economic upswing, and is attracting foreign interest. In the first quarter, foreigners' net purchases of U.S. stocks amounted to more than $10 billion at an annual rate, up from less than $4 billion during all of 1982.

Despite the rise in U.S. rates, money market rates have risen only slightly in Germany, Switzerland, and the Netherlands (see Table 3). Having reduced discount and Lombard rates by 1% in March, the German authorities have been reluctant to raise official rates again, partly for fear of aggravating EMS strains, especially concerning the French franc. Moreover, German inflation continues to subside, with consumer prices up only 2.4% in the past year. Nonetheless, expectations of an eventual rise in official German interest rates have been engendered by continued rapid and above-target money supply growth and by signs of a stronger-than-expected domestic economic recovery.

The increase in Swiss interest rates has closely paralleled the German trend. The Swiss money supply has also been expanding quite rapidly, but the authorities appear flexible about their money target in light of a still-weak economy. In addition, they may not wish to see further strengthening of their franc against the mark.

The Dutch central bank raised its discount rate in early May. The guilder was weak within the EMS, reflecting both disappointed market expectations that it would stay in line with the mark and concerns about financing the government's large budget deficit. Money rates and bond yields rose sharply for a time, before more recent easing as pressures on the guilder subsided.

Elsewhere in Europe, interest rates have been steady or have eased slightly. The decline in U.K. money market rates that followed the Conservatives' election victory failed to forestall a boost in mortgage rates. Money supply growth has been distinctly above target in recent months, but U.K. officials attribute the overshoot to temporary influences that will be reversed in due course.

Current account contrasts

Only in the past couple of months has the widely expected divergence in current account performance between the United States and other major industrial countries emerged clearly in the reported figures. The U.S. merchandise trade deficit increased sharply in April-May, to $69 billion at an annual rate on the CIF customs valuation, following $43 billion in the first quarter. Much of the increase in the trade deficit stemmed from a sharp rebound in oil imports, which ran as high as 5.5 million bpd in May, compared with 4.1 million bpd in the first quarter. Nonetheless, thanks to the low $12 billion annual-rate first-quarter outcome, the estimated U.S. current account deficit for the first five months of 1983, at a $22 billion rate, was still below 1982's second-half result (see Table 4). Moreover, because of measurement problems, the U.S. current account deficit is probably not, in reality, as large as reported.

The combined current account balance of six other major industrial countries was in surplus at an an-

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Table 3

European interest rates (mid-month)

percent per annum

	Dec 1982	*May 1983*	*Jun 1983*
Germany			
3-month interbank	6.45	5.20	5.50
10-year government bond	8.03	7.80	8.15
Switzerland			
3-month interbank	3.88	4.75	4.81
9-year government bond	4.09	4.15	4.39
Netherlands			
3-month interbank	5.75	5.38	5.50
10½-year government bond	8.16	9.30	9.15
United Kingdom			
3-month interbank	10.56	10.25	9.54
9-year government bond	11.50	11.15	10.77

nual rate of around $14 billion in the first five months of this year — about a $5 billion increase from the second-half 1982 rate. Only Japan has scored major improvement in its current account performance so far this year. Japan's surplus more than doubled, from a $7.7 billion annual rate in the second half of 1982 to a $19.4 billion rate in the first five months of this year. Lower oil prices and weak domestic demand have depressed imports. Meanwhile, exports have begun to pick up.

In Europe, the current account surplus of Germany has changed little. Modest improvement is projected for the remainder of this year. Germany's domestic upturn is running ahead of that in most other European countries and the French recession will bear heavily on German exports. As imports seize a growing share of Britain's expanding domestic market, the U.K. current account surplus already has practically vanished, and now is moving into deficit. The French current account remained in sizable deficit during the first five months of this year. The deficit is expected to shrink during the remainder, however, as the government's austerity measures cut further into domestic consumption.

Over the balance of this year a widening of the U.S. current account deficit is likely, as economic recovery spurs higher imports. The projected $28 billion current account deficit for the year as a whole implies that the deficit will average an annual rate of approximately $33 billion in the last seven months versus an estimated $22 billion in the first five months. The combined current balance of the other six major industrial countries is projected to strengthen modestly during the remainder of this year, mainly because of the expected reduction in the French deficit. Yet, in the face of contrary interest rate pressures, it is unclear whether this divergent current account trend will be sufficient to weaken the dollar.

How overvalued is the dollar?

Among the more striking developments of the 1980s has been the steep rise of the dollar in exchange markets. The 1970s witnessed recurrent dollar weakness. From the beginning of the decade through its low of October 1978, the U.S. currency gave up 53% of its value in terms of the German mark and 39% vis-à-vis the Japanese yen. On a nominal effective basis, the dollar's depreciation reached 27% (see Chart 3). Between that time and mid-1983, the dollar has risen 37% and 30%, respectively, against the German and Japanese units and 27% on an effective basis. Much lower inflation in Germany and Japan than in the United States, at least until recently, made the dollar's rise in real terms even greater — 57% against both the mark and the yen. Such shifts in currency values, coupled with dramatically increased volatility of international financial and currency markets, place great strains on business

Table 4

Current account balances

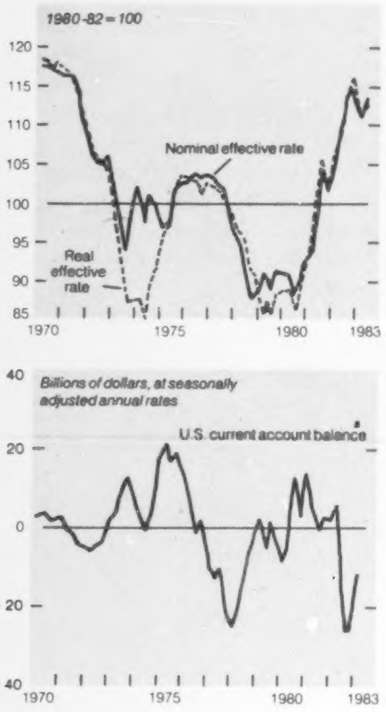
$ billions, seasonally adjusted annual rates

	1982		*1983*		
	Year	*2nd half*	*Year-to-date**	*Rest of year*	*Year*
United States	—11.2	—27.2	—21.7	—32.5	—28.0
Six major industrial countries	1.8	9.0	13.6	15.8	14.9
Canada	2.4	3.5	2.0	1.1	1.5
Japan	6.9	7.7	19.4	17.0	18.0
France	—12.0	—11.2	—10.5	—4.5	—7.0
Germany	3.3	5.1	5.1	7.5	6.5
Italy	—5.7	—4.6	—2.5	—2.7	—2.6
United Kingdom	6.9	8.5	0.1	—2.6	—1.5

*January-May estimates.

Chart 3

Dollar effective exchange rates and the U.S. current account



strategies, economic management, and political harmony among the major nations.

In hopes of easing those strains the Williamsburg summit leaders recently undertook to "improve consultations, policy convergence and international cooperation to help stabilize exchange markets." They also agreed "to take fully into account the international implications of [their] own policy decisions," and "to reinforce [their] multilateral cooperation with the IMF in its surveillance activities." The July ministerial meetings to discuss the exchange rate system provide a test of these new commitments. The challenge is to give practical content to admirable intentions.

While short-run exchange rate volatility is undoubtedly a problem, the more basic and divisive issue is that of substantial deviations from perceived purchasing power parities and prolonged currency misalignments stemming from the alleged failure of foreign exchange markets to respond appropriately to so-called economic fundamentals. In particular, the divergence that has been apparent for almost a year between the deteriorating U.S. current account position and the improvements recorded by other industrial countries, particularly Germany and to a much greater extent Japan, was widely expected to weaken the dollar significantly well before now. This would have narrowed the price and cost disadvantage suffered by U.S. firms in competition with foreign firms. That handicap is commonly estimated to be on the order of 20% against foreign competitors in general, and even more with respect to Japan.

The dollar's strength clearly has caused problems for U.S. industries and foreign economies. But it would be a mistake to try to solve these problems by recasting economic policies to engineer a substantial decline in the dollar. For the time being, it may be necessary to live with a strong U.S. currency. The United States should then take maximum advantage of its anti-inflationary benefits and incentives to boost productivity, while tempering any adverse employment effects. The chief concern should be to avoid protectionist responses, particularly those stemming from undervaluation of the yen. It should be clearly understood that protectionist measures to curb Japanese exports not only deprive consumers of free choice, while obstructing structural change and modernization, but also contribute to yen weakness. One way to deter protectionist responses and to strengthen the yen is for Japan to accelerate removal of its nontariff barriers, which have held Japan's manufactures imports to by far the lowest share of domestic GNP among all industrial countries.

The fact that the dollar is currently strong does not necessarily imply that it is substantially overvalued. The widespread view of significant dollar overvaluation rests largely on sizable U.S. current account deficits and impaired price competitiveness. Reported current account statistics, however, are seriously deficient in quality. Even if the current account deficit is accepted at face value, it does not provide an exchange rate yardstick that is either reliable in explanatory and predictive power or adequate as a test of the acceptability of market behavior. Investment and asset preferences are now the principal determinants of currency values. Similarly, statistical measures of international competitiveness based on the circumstances of the 1970s can be abused as indicators of currency deviation from "equilibrium" values today, unless structural change and shifts in comparative advantage are kept in mind. Much of the dollar's weakness during the 1970s reflected poor eco-

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nomic policies, notably in the monetary and energy areas. With the more constructive policies now in place, it is not unreasonable that the dollar should have returned to its level prior to the Smithsonian Agreement of end-1971.

Current account measurement problems

Official current account figures are of questionable quality (*World Financial Markets,* May 1983), detracting from any straightforward relationship between the announced figures and the dollar's exchange market performance. Even cursory study of the reporting and estimating procedures used in constructing the official data reveals the likelihood of serious measurement error. Just as the presence of a large but undocumented underground economy impairs the reliability of GNP statistics, misunderstandings, potential tax liability, and other reasons for nonreporting cast doubt on balance of payments statistics — the more so in view of the meager resources devoted to their collection. Statistical failings, of course, are no monopoly of the United States. Nor need incomplete coverage necessarily imply bias in the net payments figures. Nonetheless, nations in general seem to track external *payments* on current account more successfully than external *receipts.* This bias is evidenced by the enormous global statistical discrepancy on current transactions, which surpassed $80 billion last year.

Underestimation of service exports relative to service imports is a principal source of the general tendency to overstate current deficits and understate current surpluses. Since the United States alone generates more than 20% of world service earnings, the global discrepancy may well imply serious understatement of U.S. net services income. Receipts from transportation services, investment income, and fees — areas in which the United States is strong — are especially difficult to capture. The suspicion must be that the official estimates of the international investment or balance-sheet position of the United States are seriously flawed, or that the rates of return applied to derive associated income receipts and payments are incorrect. Thus, reported U.S. current account deficits at seasonally adjusted annual rates of $27 billion in the second half of 1982 and an estimated $22 billion in the first five months of 1983 are exaggerated.

Does the current account matter?

Even if measurement problems were dealt with adequately, the link between current account positions and exchange rates is tenuous, at least in the short run, because of the importance of financial assets and international capital mobility. Analysis of factors influencing asset preference often provides a more fruitful approach to the interpretation of currency market behavior than does the traditional emphasis on payments flows. Quite marginal shifts in the composition of asset holdings among the key convertible currencies can quickly dwarf the day-to-day scale of trade and current account transactions in exchange markets. Just as stock prices vary substantially in response to new information affecting actual or future earnings, exchange rates can move in reaction to actual or anticipated changes in factors that affect the willingness to hold financial assets denominated in a particular currency. This has given rise to the view that exchange rate equilibrium, at least in the short run, is largely determined by the willingness of investors to hold existing stocks of assets denominated in various currencies.

From a theoretical and market perspective, greater emphasis is being placed today on the importance of financial assets in exchange rate determination. Reporting and analysis of balance of payments statistics, however, have moved in the opposite direction, focusing on current account rather than capital account transactions. In the 1960s there was a proliferation of balances that extended beyond current transactions to include various classes of capital transactions deemed to be of "autonomous" or "compensatory" character, or separating transactions of private and official asset holders. Such distinctions were intended to address behavioral characteristics of the exchange markets of that time, and whatever their practical deficiencies, had the merit of emphasizing the importance of capital movements. In the 1970s, the abandonment of fixed parities (and the obligation of central banks to intervene in foreign exchange markets) together with the increase in official dollar holdings by OPEC and others for investment purposes diminished the policy interest of the official settlements balance and undermined the behavioral distinction between private and official holdings of foreign exchange. Similarly, innovation in capital markets and their increasing integration destroyed the significance of long-term and short-term distinctions and blurred the separate treatment of bank and nonbank transactions. For these reasons (and also for the sake of conformity with national-income accounting methodology, which attempts to separate capital transactions from income concepts) current account balances continue to be highlighted, while overall measures of the balance of payments are de-emphasized and virtually ignored.

Apart from conceptual issues concerning the appropriate classification of capital transactions in the balance of payments, the available statistics suffer from acute measurement problems, as evidenced by the more than $40 billion errors and omissions item in the U.S. accounts for 1982. This overall measurement discrepancy represents not only the underreporting of current receipts noted above, but also the failure to capture capital inflows.

Even if balance of payments statistics could be perfected, they still would not provide a comprehensive characterization of exchange market supply and demand. For example, the balance of payments accounts are keyed to transactions of residents with nonresidents. The dollar's domain, however, extends well beyond the territorial confines and legal jurisdiction of the United States, encompassing the Eurodollar markets and, in some respects, a major portion of the third world whose external transactions have little bearing on exchange markets. Shifts between dollar and mark holdings in the Euromarkets, for example, may not appear in the payments accounts of the United States or Germany. Yet they can greatly influence exchange rates.

Expected return, variability of return, liquidity, and security, which are the determinants of asset preferences, all have helped to support the dollar in the 1980s. Expected returns on dollar assets have plainly gained vis-à-vis other currency investments from the high interest rate differentials prevailing since 1979. Differentials have risen not only in nominal terms but also in real terms, as generally perceived, given the sharp reduction in U.S. inflation and heightened confidence in long-term U.S. anti-inflationary commitment. Moreover, increased political and economic uncertainties abroad, together with tightening of exchange controls in much of Europe and Latin America, have diminished confidence abroad. By contrast, the stability of U.S. political and financial institutions and the efficiency and openness of U.S. capital and real estate markets have shifted asset preferences in favor of the dollar. The dollar's standing is further enhanced as deregulation and innovation in financial markets that were already of unparalleled breadth and depth make access to dollar investments even more convenient.

Amid these forces, the weight of the U.S. current account position in shaping asset preferences has diminished since the 1970s. If asset preferences and shifts therein dictate net capital inflows, particularly in key currency countries such as the United States, the exchange rate will be bid up initially and the current account will be driven into deficit in order to accommodate such capital inflows. Thus, the current account can follow rather than lead capital account trends. A current account deficit has no necessary negative implication for the dollar's exchange market value, as long as investors prefer to acquire dollar-denominated assets.

What factors might change investors' willingness to hold dollar assets and contribute to a weakening of the dollar? Three possibilities can be considered. The first and preferred way is action by the Administration and Congress to reduce the prospective large U.S. government budget deficits, which, if the recent experience continues, could add $1 trillion to federal debt outstanding in five years. Diminished government borrowing requirements would tend to forestall pressures in credit markets as private demands pick up. Lessened fears of crowding out could induce a decline in U.S. interest rates, making it less attractive for investors to hold dollar assets.

The second possibility is the reemergence of a dollar "overhang," in which investors come to find the proportion of dollar assets in their portfolios unduly high. Diminished confidence in U.S. economic management, perceptions of current account imbalance, or renewed faith in foreign prospects could bring this about. Indeed, some may be concerned that insofar as the large U.S. federal budget deficits are financed abroad through net capital inflows, they could lead to excessive accumulation of U.S. government obligations in foreign hands. Yet, the federal budget deficit would result in a deterioration in the net financial position of the U.S. abroad only to the extent the U.S. current account were in deficit and net foreign savings were transferred to the United States for an extended period. As noted earlier, however, such current account deficits are of recent origin and are overstated. Moreover, the willingness of foreigners to hold dollar obligations reflects in part a desire to rebuild depleted international reserves at a time when numerous calls for new SDR-reserve creation suggest a shortage of international liquidity. Thus, anxieties about another dollar overhang are premature.

The third possibility that could affect asset preferences and the dollar would be for the U.S. government to pursue economic policies that would lead to a decline of the dollar. Policies such as exchange market intervention or political manipulation to lower interest rates despite rapid economic recovery and large budget deficits could trigger excessive monetary expansion. Such expansion would lead to a weakening of the dollar in foreign exchange markets and to reaccelerating inflation and inflationary expectations. This clearly would not be a desirable way of correcting any overvaluation of the dollar.

Measuring competitiveness

According to calculations of the dollar's real effective exchange rate, the United States has experienced more than a 20% loss in the relative price competitiveness of its manufacturing industry vis-à-vis foreign competitors since the second half of the 1970s. As shown in Table 5, the precise measure is obviously affected by the choice of weighting scheme, the set of countries included in the assessment of competitiveness, and the incorporation of more recent information on trade patterns. For the dollar the main difference among weighting schemes concerns the importance of Canada relative to Japan and Europe. The weight of Canada in U.S. manufactures trade with industrial countries diminished sharply between 1976 and 1980, from 39% to 29% (see Table 6). A real exchange rate index that attempts to capture competition among industrial countries in third markets further reduces the weight of Canada to 22%. This is still more than three times the weight assigned Canada on a multilateral approach that ignores regional ties. Thus, the loss of competitiveness, at about 20%, is much less than the 30% indicated by the multilateral approach.

The contention that the dollar is overvalued by 20% or more presumes that the second half of the 1970s provides an appropriate reference for judging the degree of dollar overvaluation today. There is, however, no objective basis to identify the relative price conditions of the 1970s as an equilibrium state pertinent to *current* circumstances. During the 1970s two structural forces combined to depress the dollar below its long-term fundamental

Table 5

*Dollar real effective exchange rate, 1983 Q2**

average index values for quarter

	Reference base period		
	1973 Mar=100	*1975-79=100*	*1980-82=100*
Bilateral weighting			
1. 1976 pattern	118.0	120.3	110.1
2. 1980 pattern	120.6	123.1	112.6
Bilateral weighting, 1980 pattern, adjusted for supplier competition in export markets versus			
3. Industrial country competitors only	120.8	116.2	112.5
4. Industrial and LDC competitors	123.1	124.2	113.6
Multilateral weighting, 1980 pattern			
5. Relative shares in total intra-OECD trade	125.1	132.4	117.5

*The dollar's trade-weighted appreciation vis-à-vis currencies of principal trading partners, adjusted for inflation differentials in wholesale prices of nonfood manufactures. The indices in the statistical appendix to this publication use 1976 bilateral weighting and are reported to the March 1973 reference base period. The indices adjusted for supplier competition in export markets consider both foreign competition with U.S. firms in the U.S. domestic market and, in markets abroad, the competition of U.S. firms versus other exporters and domestic suppliers.

Table 6

*Dollar effective exchange rate: relative weights of trading-partner currencies in calculation**

percent

	Canada	*Japan*	*United Kingdom*	*Germany*	*Other industrial countries*	*Selected LDCs***
Bilateral weighting						
1. 1976 pattern	39.2	19.8	7.5	8.9	24.5	—
2. 1980 pattern	29.1	22.2	8.9	10.4	29.4	—
Bilateral weighting, 1980 pattern, adjusted for supplier competition in export markets with						
3. Industrial country competitors only	22.3	27.2	8.4	12.7	29.4	—
4. Industrial and LDC competitors	20.7	21.8	8.1	10.2	17.9	21.3
Multilateral weighting, 1980 pattern						
5. Relative shares in total intra-OECD trade	6.4	7.2	10.6	20.4	51.2	—

*Weights are derived from data on bilateral exports and imports of manufactured goods and on total manufacturing production.

**Argentina, Brazil, Mexico, Venezuela, Indonesia, Taiwan, Hong Kong, Korea, Malaysia, Philippines, Singapore, Thailand.

worth. First, U.S. monetary policy was loose and confused for much of the decade, resulting in far more rapid inflation than was typical in the earlier post-World War II period. While money illusion persisted, real interest rates were driven down and, indeed, were often negative, an aberration that could not be sustained permanently. Exchange market confidence was further undermined by official attitudes toward a weak dollar that most of the time ranged from outright welcome to indifference. Second, a weak dollar was needed to keep the current account balance within reasonable bounds while profligate energy policies transformed the United States from its petroleum self-sufficiency of the 1960s to the world's largest net oil importer in the 1970s. Paying for oil required an increasing surplus on other trade and services. This in turn required a more price-competitive U.S. manufacturing sector, certainly for as long as agriculture and services provided relatively modest net earnings.

Structural forces influencing the dollar in the 1980s reflect the reordering of U.S. economic priorities toward the end of the 1970s. Under Federal Reserve Chairman Volcker, and with Reagan Administration support, U.S. monetary policy has shifted to a more consistent and tough anti-inflationary stance. This has achieved an extraordinary reduction in actual inflation, although long-run inflationary expectations are less fully subdued. Fear of renewed inflation, closely associated with budget worries, is keeping real interest rates high. Even so, confidence in U.S. financial policies plainly stands higher today than when U.S. monetary policy was subordinated to conflicting and short-term ends.

Equally important as a source of dollar strength in the 1980s has been the progress toward energy price decontrol, initiated under the Carter Administration and pressed forward by President Reagan. Although full decontrol of natural gas prices remains to be accomplished, the more realistic level of U.S. energy prices has already enabled the United States to reduce its net oil imports from 9 million bpd in 1977 (almost 50% of the domestic consumption of 18.4 million bpd) to a projected 4.2 million bpd this year (less than 30% of the likely 15 million bpd consumption). At current prices this import cutback represents a saving of $50 billion. This degree of economy can hardly be achieved by Japan or Germany, which lack domestic petroleum resources, whereas the United States remains among the world's leading oil producers. True, there is no room for complacency about energy policy, given that in the long term the United States again faces an energy problem as domestic oil resources dwindle. Nonetheless, in the wake of the second oil shock, there is an important and continuing petrocurrency factor buoying the dollar vis-à-vis the yen and mark, just as petrocurrency status has contributed to the real appreciation of sterling.

Dollar appreciation bred by high real oil prices is not a perverse financial market phenomenon that gratuitously damages U.S. manufacturing industry. Instead it is the market's recognition of an effective shift in U.S. comparative advantage vis-à-vis other industrial countries such as Japan and Germany. Table 7 sets out the current account structures of the United States, Japan, and Germany in 1982, distinguishing their export earnings and net trade balances in agricultural products, petroleum, other fuels and raw materials, manufactures, investment income, and other services. What stands out is the overwhelming dependence of the exports of Germany and Japan on manufactures — 69% and 76% of total goods and services earnings, respectively. By contrast, the United States displays an export performance that is far more broad-based, deriving only 44% of its total goods and services earnings from manufactures. The contrast rests on the United States' extensive natural resource endowment, its accumulated international investment position, and the competitive vigor of its sophisticated service industries.

For the United States, maximizing the benefits from international trade does not mean maximizing the export revenues of the manufacturing industry and minimizing import expenditures for manufactured goods. Rather, it requires balanced recognition of where the nation's comparative advantage lies. The competitive difficulties of some U.S. manufacturing sectors are, in fact, the logical counterpart of the competitive strengths of other sectors. It would be nice to make statistical demonstration of the United States' superior competitive position in agriculture and in financial and other services. Unfortunately, this cannot be done in any precise way, since properly comparable price data are not available. International trade in farm products is, of course, very far from free. Given the prevalence of trade barriers and export subsidies, domestic and international prices and market shares provide little guide to underlying competitive trends, but there can be no real question that the United States enjoys a comparative advantage in the agricultural field.

Trade barriers are also a severe impediment to U.S. service earnings and still are not receiving the intergovernmental attention their importance warrants. Even apart from the large earnings that the United States derives from direct and portfolio investment abroad, the U.S. competitive position in services is quite favorable. General real wage gains have been modest or nonexistent over the past decade in the United States, but substantial in most other industrial countries — an important factor in the United States' relatively good record of employment growth. In service activities it is unlikely that disparities of productivity growth internationally have been as disadvantageous to the United States as in traditional manufacturing. It is likely, therefore, that the relative unit labor cost position of the United States is considerably stronger in services than in manufacturing.

Nor should it be overlooked that manufacturing embraces a great diversity and changing mix of products, technologies, and business organizations. Statistical measures of price or cost competitiveness are not able to take good account of product, technological, or organizational innovations. Trends in international competitiveness therefore cannot be reliably assessed over long periods of time by simple ap-

Table 7

Current account structures, 1982: United States, Germany, and Japan

billions of dollars

	Receipts			Balances		
	United States	*Germany*	*Japan*	*United States*	*Germany*	*Japan*
Merchandise total (customs basis, imports CIF)	212	175	138	—43	21	7
*Agricultural products**	37	9	1	20	—8	—13
Petroleum	6	3	0	—54	—26	—55
Other fuels and raw materials	17	7	1	—3	—12	—28
*Manufactures***	152	156	136	—6	67	103
Merchandise total (BOP basis, imports FOB)	211	176	138	—36	26	18
Investment income	84	13	18	19	—1	2
Other services and transfers	53	36	23	6	—22	—13
Goods, services, and transfers total	348	225	179	—11	3	7

*For Germany, SITC groups 0 and 1; for Japan, foodstuffs.

**Includes reexports and unclassified goods.

peal to such statistics. Many of today's most dynamic industries were scarcely beyond their initial research phase just a decade ago and are certainly not adequately represented in official statistics.

Beyond this, it is widely recognized that the adjustment to competitive forces occurs far more rapidly today than in the earlier period of floating exchange rates. Whereas it was once believed that the trade effects of exchange rate changes took as long as three to four years to work themselves out, the response time today has shortened as business has adapted to frequent exchange rate movements.

For all these reasons, conditions of the late 1970s no longer provide a relevant yardstick for gauging the degree of dollar overvaluation today. Identification of a more appropriate period is, however, no simple matter. Any choice inevitably entails judgment about the direction and speed of structural change in the world economy and about the balance of policies in the major countries. A suitable reference period should be neither so long as to overlook fundamental change, nor so short as to be dominated by transient forces. On these grounds, although one should not be dogmatic about the definitive correctness of any specific choice, the average experience of 1980-82 provides a reference period that is at least reasonable for evaluating the current position. It was a period in which the major lines of present monetary, fiscal, and energy policies were taking hold or were re-affirmed, both in the United States and elsewhere among the principal industrial countries. While there have been considerable short-run costs, policy redirection has returned the United States to a low-inflation path that is more representative of its post-World War II history than was the inflationary interlude of the 1970s. That redirection, and the wider world disinflation, is fundamental to the currency experience of the 1980s.

From the 1980-82 perspective the dollar still looks strong, but its apparent overvaluation as of the second quarter of this year is reduced by about one third, lowering the index value from 120 to 112. It should be emphasized that the remaining 12% loss of U.S. relative price competitiveness is only an estimate of the competitive loss sustained by the *manufacturing sector*. It is not a measure of the dollar's overvaluation from the standpoint of the U.S. economy in its entirety.

The new 1980-82 reference period for the effective exchange rates also affects the index levels for other currencies (see Table 8). For the principal continental European currencies the changes are minor. However, sterling's overvaluation by the measure of the 1970s now appears as a notional undervaluation and Canada's real effective exchange rate no longer looks undervalued. Moreover, the apparent undervaluation of the Japanese yen diminishes, with the index value rising from 92 to 96. The modest extent of the yen's remaining apparent undervaluation, just 4%, highlights the importance of looking at factors other than statistical measures of international competitiveness in forming an overall judgment of the degree of any currency misalignment. In order to defuse trade frictions, the yen may have to rise distinctly above the reference level, which will likely require severance of the informal mark-yen link that has held through much of the early 1980s. The case of the Japanese yen raises the more general point that in any base period special circumstances will have prevailed, which must be considered in assessing currency misalignment.

In the case of the dollar, even if

12% is a fair appraisal of the weakened competitive position of U.S. manufacturing industry, it must be remembered that the strong dollar is working to accelerate structural change that would inevitably have occurred during this decade. Dollar weakness in the 1970s tended to defer the movement of low-technology, labor-intensive manufacturing from the United States toward newly industrializing countries. It also worsened U.S. inflation and provided no incentive for rigorous management. Dollar strength in the 1980s speeds up the transfer of outmoded industry, promotes efficiency, and curbs U.S. inflation.

From a long-term perspective it should be recognized that currency changes can only buy time for recognizing new priorities and proceeding with requisite structural adjustment. Until a new direction for reshaping U.S. economic policy developed, policymakers resorted to currency depreciation to shore up eroding U.S. competitiveness. Such depreciation, however, was only a palliative. With the more realistic policies now in place, it is not surprising that the real value of the dollar has now been restored not far short of its level prior to the disintegration of the Bretton Woods system.

Overall, dollar strength offers pluses and minuses, for both the world and the United States. The principal drawbacks are increased unemployment in the United States, at least temporarily, and a potential protectionist backlash. The risk of such a backlash is multiplied by Japan's slow progress in liberalizing its domestic markets and by the almost universal perception outside Japan of yen undervaluation. On the plus side, an expanding U.S. import market offers export opportunity to the world in general, while giving industrializing countries a chance for sound, outward-oriented economic development. To the United States, the displacement of obsolescent industries is a necessary part of adapting the economy to support rising productivity and living standards. The replacement of outmoded industries by newer and

Table 8

Real effective exchange rates of major currencies, 1983 Q2

average index values for quarter

	*1976 bilateral trade-weighted**			*1980 bilateral trade-weighted*	*1980 bilateral trade-weighted, adjusted for supplier competition in export markets**
	1973 Mar=100	*1975-79=100*	*1980-82=100*	*1980-82=100*	*1980-82=100*
Dollar	118.0	120.3	110.1	112.6	112.5
Canadian dollar	93.5	95.1	102.4	101.6	103.5
Japanese yen	88.4	92.2	96.5	96.2	98.3
British pound	131.6	125.0	95.8	96.5	95.6
German mark	97.4	96.4	100.7	100.6	99.4
French franc	93.4	94.3	95.5	93.1	94.6
Italian lira	90.5	97.3	98.5	96.9	98.1
Belgian franc	77.4	79.3	92.0	91.7	91.1
Dutch guilder	98.9	96.5	100.7	101.2	99.5
Swiss franc	111.8	98.7	104.8	104.0	104.3

*Indices corresponding to lines 1 and 3 in Tables 5 and 6.

more technologically advanced enterprises provides needed dynamism for faster economic growth. The question of dollar overvaluation ultimately comes down to the issue of how rapid the adjustment process should be. Policymakers will not wish the overvaluation to be too severe, lest social tolerance of the transitional unemployment be stretched to the breaking point. But to contrive a sharply weaker dollar would only postpone adjustment while encouraging inflation anew.

Statistical appendix

for key to data in tables see pages 22 and 23.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Effective exchange rates

Index numbers, March 1973=100. The index of the effective exchange rate for a currency is a measure of that currency's trade-weighted average appreciation or depreciation vis-à-vis the currencies of 15 other major countries. The exchange rates used in the construction of this index are the averages of daily noon spot exchange rates in New York for months and for weeks ending on dates shown. The trade weights used are based on 1976 bilateral trade in manufactures.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
pre-June 1970 parities	118.5	94.9	79.3	116.2	91.6	97.5	110.9	95.9	98.2	88.3	97.8	97.9	98.1	102.2	92.2	98.4
Smithsonian central rates	107.0	101.3	88.7	116.0	95.4	96.1	108.3	97.0	99.1	91.6	98.0	96.0	96.3	100.5	91.7	98.1
1982																
July	119.9	80.7	112.1	78.8	142.6	76.8	45.1	95.6	122.0	179.7	124.1	82.0	108.8	82.0	79.3	61.1
August	119.8	82.5	110.9	78.9	142.8	76.5	45.0	95.3	122.8	179.6	124.3	81.7	104.2	82.7	77.3	61.2
September	120.4	83.3	109.7	79.2	143.2	75.8	45.0	94.8	123.6	179.1	124.6	81.3	102.0	82.6	76.4	61.4
October	121.9	83.9	107.2	80.0	144.3	76.0	44.7	94.5	124.9	179.4	125.4	83.4	102.1	73.0	76.5	61.1
November	121.9	84.3	110.9	77.6	144.8	76.3	44.2	94.6	125.3	179.9	125.9	84.7	103.1	70.3	76.6	59.6
December	118.7	83.0	119.5	74.1	147.3	77.5	44.7	94.9	125.7	184.5	127.1	86.2	102.7	69.3	76.0	54.2
1983																
January	117.1	83.5	123.7	71.4	147.5	77.6	45.0	95.1	126.4	191.4	127.0	86.8	101.9	69.2	76.3	53.4
February	118.3	83.8	122.9	70.4	147.6	77.7	44.9	95.0	126.3	189.7	127.0	86.5	102.6	69.3	76.0	52.9
March	119.3	84.1	122.9	69.0	150.2	76.6	44.2	96.2	126.6	186.4	128.7	86.7	102.4	69.4	70.2	51.9
April	119.9	83.7	123.7	72.0	150.6	74.1	44.2	95.6	125.0	189.1	128.0	86.6	103.2	69.6	68.7	51.5
May	119.6	83.9	125.3	74.1	149.9	73.6	44.0	95.0	124.7	190.3	127.4	85.4	103.8	69.7	69.2	51.1
June	121.5	84.0	123.8	74.6	148.8	73.1	43.9	94.4	124.6	190.4	126.8	84.3	104.1	70.2	70.2	50.3
June 3	121.0	83.9	124.0	76.1	148.6	73.0	43.9	94.4	123.9	189.9	126.7	84.0	104.5	70.3	70.0	50.8
10	121.8	83.8	123.2	76.1	148.4	72.9	43.9	94.2	124.0	189.5	126.6	84.1	104.3	70.2	70.2	50.6
17	122.0	83.9	123.2	73.9	148.8	73.0	44.0	94.6	124.7	189.7	126.9	84.7	104.4	70.3	70.6	50.4
24	121.2	84.1	124.5	73.7	149.2	73.3	44.0	94.5	125.1	191.3	126.8	84.4	103.4	70.1	70.1	49.9
July 1	121.3	84.2	124.2	73.6	149.1	73.4	44.0	94.4	124.8	191.1	127.0	84.3	103.8	70.3	70.1	49.6

Real effective exchange rates

Index numbers, March 1973=100. The index of the real effective exchange rate is the index of the effective exchange rate adjusted for inflation differentials which are measured by wholesale prices of nonfood manufactures. Exchange rates and trade weights used in the construction of this index are the same as those used for effective exchange rate indices. Annual figures are averages of months.

	United States	Canada	Japan	United Kingdom	Germany	France	Italy	Belgium	Netherlands	Switzerland	Austria	Denmark	Norway	Sweden	Australia	Spain
1979	95.6	92.0	97.1	117.9	103.0	98.2	92.5	95.6	100.1	116.3	107.5	100.5	92.4	98.8	87.5	136.7
1980	97.1	91.1	94.8	136.9	100.0	99.5	95.2	90.1	98.0	105.8	107.9	93.0	94.5	100.1	83.9	134.9
1981	107.8	91.3	95.6	139.9	94.3	98.0	90.7	84.5	96.1	105.1	106.3	89.0	98.9	101.0	98.1	129.2
1982	116.5	91.6	84.4	135.2	96.0	95.7	89.6	77.7	100.7	109.2	108.1	87.1	100.5	95.9	100.3	128.7
1982																
June	117.8	89.2	83.5	135.4	96.5	95.7	88.0	77.4	101.0	107.0	108.0	86.3	103.1	97.7	102.2	129.6
July	119.6	89.2	82.3	136.2	96.5	93.7	89.1	77.3	101.0	107.3	108.3	85.9	101.8	98.3	101.8	129.1
August	119.6	90.8	81.4	136.4	96.6	92.8	89.6	77.3	101.3	107.3	108.3	86.2	97.7	99.1	100.2	129.5
September	118.8	93.0	80.6	137.4	96.6	92.2	89.9	76.8	101.8	107.3	108.2	86.0	96.5	99.1	99.6	130.8
October	121.7	92.4	78.0	138.8	96.8	93.2	89.3	76.1	102.1	107.4	108.4	88.5	96.5	90.2	99.4	130.4
November	121.1	92.2	80.5	135.1	96.7	93.3	89.5	76.2	102.2	107.4	108.6	89.1	97.4	88.3	99.2	128.5
December	118.9	90.8	86.4	130.3	97.8	95.1	90.6	76.6	101.8	109.5	110.1	90.2	97.2	87.3	98.7	118.8
1983																
January	116.4	92.0	89.4	126.2	97.7	95.0	91.7	77.0	102.2	113.3	110.4	90.9	96.8	88.2	99.7	118.5
February	117.2	92.4	88.6	124.6	97.1	96.6	91.4	76.9	101.5	112.0	110.6	91.1	93.2	87.9	100.1	118.7
March	117.4	93.8	88.4	122.5	98.3	95.6	90.3	78.2	101.5	110.2	112.1	91.3	97.6	88.1	93.2	117.2
April	117.6	93.3	88.2	128.4	98.7	93.5	90.5	77.7	99.5	111.7	110.7	91.2	98.7	88.5	91.6	117.5
May	117.7	93.3	89.0	132.5	97.3	93.2	90.4	77.3	98.9	112.0	110.6	90.7	99.0	89.4	92.4	117.9
June	118.7	94.0	87.8	133.9	96.3	93.4	90.5	77.0	98.4	111.9	110.1	89.4	99.5	89.8	94.5	117.5

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, and Singapore
billions of dollars (rounded to nearest $5 billion), at end of period

	1973	*1974*	*1975*	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*	
										Sep	*Dec*
Estimated size											
Gross	315	395	485	595	740	950	1 235	1 525	1 860	2 015	2 055
Liabilities to nonbanks	55	80	90	115	145	190	260	345	440	475	485
Liabilities to central banks	40	60	65	80	100	115	145	150	130	105	90
Liabilities to other banks[a]	220	255	330	400	495	645	830	1 030	1 290	1 435	1 480
Net	160	220	255	320	390	495	590	730	890	940	960
Claims on nonbanks	70	105	130	165	210	265	330	425	530	575	595
Claims on central banks and on banks outside market area[b]	70	95	105	130	150	185	200	230	275	275	270
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	20	25	30	45	60	75	85	90	95
Eurodollars as % of gross liabilities in all Eurocurrencies	74	76	78	80	76	74	72	75	78	81	79

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1979	*1980*	*1981*	*1982*		*1983*					
	Dec	*Dec*	*Dec*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*
Eurodollar:											
overnight	14.00	19.25	12.87	8.88	9.25	8.63	8.63	9.13	8.75	8.88	9.50
7-day fixed	14.00	19.75	13.00	9.00	9.25	8.75	8.63	9.25	8.75	8.88	9.50
one month	14.37	19.12	13.31	9.38	9.13	9.00	8.56	9.44	8.94	9.13	9.50
three months	14.44	17.55	13.75	9.88	9.19	9.25	8.75	9.63	8.88	9.44	9.69
six months	14.44	16.37	14.81	10.13	9.50	9.56	8.88	9.75	9.06	9.63	9.94
twelve months	12.87	14.87	14.75	10.38	9.63	9.75	9.13	9.94	9.25	9.81	10.06
Euromark:											
one month	8.50	8.87	10.44	7.19	5.88	5.63	5.38	4.81	4.88	4.94	4.94
three months	8.56	8.87	10.50	7.06	5.88	5.63	5.25	4.94	5.00	5.06	5.19
six months	8.56	8.87	10.56	7.06	5.94	5.69	5.38	5.13	5.06	5.25	5.50
twelve months	8.12	8.93	10.25	7.00	6.00	5.88	5.50	5.38	5.31	5.69	5.94
Euro-Swiss franc:											
one month	5.19	6.00	8.87	3.94	2.81	2.38	2.88	3.81	4.31	4.75	4.56
three months	5.75	6.00	9.25	4.06	3.25	2.75	3.00	3.88	4.38	4.75	[illegible]
six months	5.87	5.75	9.25	4.06	3.44	3.38	3.38	3.88	4.38	4.75	4.75
twelve months	5.56	5.50	8.50	4.19	3.44	3.56	3.63	3.94	4.38	4.63	4.69
Eurosterling:											
one month	16.75	14.75	15.37	10.44	10.56	11.50	11.38	10.75	10.25	10.25	9.63
three months	16.75	14.75	15.69	10.44	10.44	11.50	11.25	10.69	10.19	10.25	9.63
six months	16.75	14.25	15.69	10.38	10.31	11.44	13.19	10.63	10.06	10.25	9.88
twelve months	15.25	14.00	15.37	10.31	10.31	11.25	10.75	10.56	10.00	10.31	10.06
Euro-French franc:											
one month	13.87	11.12	15.75	19.50	23.00	16.00	21.50	12.13	12.38	12.50	12.38
three months	14.00	11.75	17.00	19.75	24.00	20.00	23.00	12.31	12.88	13.38	14.95
six months	14.12	12.25	18.00	20.38	22.00	20.00	21.25	13.75	14.38	15.75	16.69
twelve months	13.75	12.87	18.25	20.00	19.75	18.00	18.38	15.00	16.00	17.25	18.00
Euroyen:											
one month	7.62	9.12	6.12	7.31	6.75	6.56	6.69	6.38	6.13	6.31	6.44
three months	8.31	9.25	6.12	7.25	6.75	6.56	6.63	6.38	6.19	6.31	6.50
six months	8.62	9.62	6.87	7.19	6.81	6.50	6.50	6.38	6.19	6.31	6.50
twelve months	7.94	9.37	6.87	7.19	6.81	6.63	6.56	6.44	6.38	6.38	6.50

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	1981	1982[r]	1983			Jan-Jun	
				Apr[r]	May[r]	Jun[p]	1983	1982
Industrial countries	**39 100**	**86 022**	**42 775**	**2 714**	**2 244**	**1 428**	**16 873**	**21 071**
Australia	2 475	1 680	4 721	362	304	—	1 301	3 002
Canada	1 743	4 112	3 838	—	—	—	—	2 260
Denmark	1 720	1 661	789	—	208	73	1 586	770
France	1 745	3 912	5 653	—	—	155	745	1 192
Greece	1 333	1 039	770	26	—	5	551	550
Ireland	237	1 361	401	500	—	—	541	354
Italy	6 268	6 030	3 657	—	326	254	1 464	2 021
Norway	685	713	2 069	82	—	50	336	265
Portugal	745	1 590	1 388	300	—	—	300	936
Spain	5 457	3 242	1 849	114	725	74	1 838	834
Sweden	1 370	1 867	649	110	180	—	2 350	425
United Kingdom	1 470	747	1 635	—	37	182	530	543
United States	6 719	54 784	6 566	1 030	340	100	2 659	3 099
Other[a]	7 133	3 284	8 790	190	124	530	2 672	4 820
Developing countries	**35 054**	**45 264**	**41 424**	**1 588**	**2 917**	**2 814**	**22 884**	**25 653**
Non-OPEC countries	24 009	33 394	28 704	885	2 917	529	17 456	19 390
Argentina	2 506	2 534	1 565	—	—	250	250	465
Brazil	4 158	5 751	5 716	—	—	—	4 475	2 956
Chile	1 322	2 204	1 194	—	1 300	—	1 300	450
Colombia	608	1 030	741	100	—	—	100	493
Korea	1 917	2 824	2 923	—	392	39	1 381	1 579
Malaysia	—	1 725	1 909	50	250	—	860	1 797
Mexico	5 971	7 530	7 953	—	—	—	5 100	7 297
Peru	480	1 407	1 069	—	450	—	466	839
Philippines	1 056	1 257	635	—	100	—	685	341
Taiwan	314	928	255	100	—	—	346	—
Other	5 677	6 204	4 744	635	425	240	2 493	3 173
OPEC countries	11 045	11 870	12 720	703	—	2 285	5 428	6 263
Ecuador	1 209	934	815	—	—	—	—	615
Indonesia	1 435	725	1 250	—	—	—	1 146	368
Nigeria	1 330	1 802	2 042	—	—	1 600	1 633	467
United Arab Emirates	101	363	93	—	—	500	1 190	53
Venezuela	6 715	7 559	6 799	—	—	—	237	3 944
Other	255	497	1 721	703	—	185	1 222	816
Communist countries	**2 809**	**1 791**	**765**	**15**	—	**5**	**238**	**374**
China	181	370	43	—	—	—	—	—
East Germany	303	470	8	—	—	—	—	—
Hungary	550	550	340	15	—	5	238	—
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	—	—	—	—	374
International organizations[c]	**429**	**302**	**150**	—	—	**1 300**	**1 321**	**150**
TOTAL	**77 392**	**133 379**	**85 063**	**4 317**	**5 161**	**5 547**	**41 316**	**47 248**

[a] includes multinational organizations   [b] includes COMECON institutions   [c] includes regional development organizations   [p] preliminary
[r] revised

International bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982			1983				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
U.S. companies:											
U.S. dollar	10.13	11.76	12.70	11.63	11.32	11.28	10.46	10.24	10.09	9.90	n.a.
Swiss franc	6.61	7.27	7.30	5.74	5.74	5.76	5.63	5.72	5.66	5.71	5.88
European companies:											
U.S. dollar	10.93	12.42	14.29	12.81	12.37	12.45	11.60	11.37	11.37	11.17	n.a.
German mark	7.55	8.79	9.36	8.23	8.31	8.17	8.15	7.98	7.49	7.16	n.a.
Governments:											
U.S. dollar	10.66	11.83	13.59	12.62	12.00	12.51	12.07	11.25	11.17	11.09	n.a.

New international bond issues*

new issues in period, in millions of dollars

	1980	1981	1982r	1983			Jan-Jun	
				Apr	Mayr	Junp	1983	1982
By type:								
Eurobonds, total	**23 970**	**31 616**	**50 365**	**5 082**	**3 830**	**4 297**	**26 660**	**30 114**
by category of borrower								
U.S. companies	4 107	6 178	12 596	575	585	451	3 110	8 368
Foreign companies	9 032	12 882	13 231	2 330	1 570	1 087	9 255	7 075
State enterprises	5 839	7 496	13 538	1 282	1 415	479	7 396	8 478
Governments	3 045	2 629	7 624	368	260	130	3 353	4 558
International organizations	1 947	2 431	3 376	527	—	2 150	3 546	1 635
by currency of denomination								
U.S. dollar	16 427	26 830	42 930	4 096	3 227	3 665	21 713	26 137
German mark	3 607	1 277	2 487	570	353	451	2 685	1 163
Dutch guilder	1 043	529	645	27	—	—	325	367
Canadian dollar	279	634	1 181	122	49	61	497	970
European composite units	65	309	1 827	37	83	36	820	751
Other	2 549	2 037	1 295	230	118	84	620	726
Foreign bonds outside the United States, total	**14 521**	**13 817**	**19 879**	**2 568**	**1 568**	**1 464**	**13 237**	**11 384**
by category of borrower								
U.S. companies	307	592	1 971	267	—	—	568	1 290
Foreign companies	3 157	3 384	4 184	861	496	474	4 897	2 198
State enterprises	2 830	3 701	5 429	351	592	233	2 498	2 996
Governments	4 086	2 762	3 494	231	170	278	1 953	2 348
International organizations	4 141	3 378	4 801	858	310	479	3 321	2 552
by currency of denomination								
German mark	4 839	1 310	2 745	357	162	294	1 877	1 614
Swiss franc	7 617	8 285	11 129	1 639	916	764	8 199	6 572
Dutch guilder	259	481	957	100	119	123	715	428
Japanese yen	1 088	2 457	3 418	336	277	235	1 970	1 926
Other	718	1 284	1 630	135	94	48	475	844
Foreign bonds in the Unites States, total	**3 429**	**7 552**	**5 946**	**400**	**725**	**200**	**2 748**	**2 380**
by category of borrower								
Canadian entities	2 136	4 630	3 180	300	200	—	1 193	1 694
International organizations	550	1 375	1 700	100	400	—	900	500
Other	743	1 547	1 066	—	125	200	655	186
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**61 518**	**6 419**	**5 203**	**3 188**	**34 109**	**35 702**
Australia	539	991	2 167	100	70	257	868	920
Austria	1 859	1 557	1 668	90	184	126	890	1 230
Canada	3 797	10 648	11 759	922	738	67	4 006	7 113
Denmark	1 125	695	1 019	81	165	87	962	797
Finland	392	672	815	172	82	100	560	386
France	2 820	3 156	7 402	1 121	741	162	5 048	4 290
Italy	904	1 108	2 263	—	101	54	388	1 376
Japan	5 309	6 928	8 213	1 855	1 246	915	8 309	4 247
Netherlands	1 585	630	865	98	11	209	523	347
New Zealand	293	1 107	1 375	46	—	7	455	738
Norway	892	530	832	50	—	19	269	299
Sweden	3 244	2 050	2 729	85	—	176	2 257	1 483
United Kingdom	1 733	1 408	1 281	125	332	—	633	312
United States	5 587	6 770	14 567	842	585	451	3 678	9 658
Developing countries	**2 485**	**4 769**	**4 930**	**121**	**210**	**144**	**744**	**3 324**
Non-OPEC countries	1 942	4 338	3 890	120	210	144	707	2 616
Brazil	349	60	91	—	—	—	—	73
Korea	68	323	172	40	93	51	295	92
Mexico	544	3 012	1 919	—	—	—	—	1 594
OPEC countries	543	431	1 040	—	—	—	37	708
Venezuela	398	291	385	—	—	—	—	285
Communist countries	**65**	**75**	**65**	**25**	—	—	**25**	**65**
International organizations	**6 638**	**7 163**	**9 677**	**1 485**	**710**	**2 629**	**7 767**	**4 687**
TOTAL	**41 920**	**52 985**	**76 190**	**8 050**	**6 123**	**5 961**	**42 645**	**43 778**

*Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.

Central bank discount rates

	1979	1980	1981	1982			1983	Current	
	end Dec	end Dec	end Dec	end Jun	end Sep	end Dec	end Mar	Jul 1 1983	effective since
United States	12.00	13.00	12.00	12.00	10.00	8.50	8.50	8.50	Dec 15, 82
Canada	14.00	17.36	14.66	16.58	12.98	10.26	9.51	9.42	Jun 29, 83
Japan	6.25	7.25	5.50	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	17.00	14.00	14.37	12.50	10.00	10.00	10.56	9.50	Jun 14, 83
Belgium	10.50	12.00	15.00	14.00	12.50	11.50	11.00	9.00	Jun 23, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	6.00	7.50	7.50	7.50	7.00	5.00	4.00	4.00	Mar 16, 83
Italy	15.00	16.50	19.00	19.00	18.00	18.00	18.00	17.00	Apr 11, 83
Netherlands	9.50	8.00	9.00	8.00	7.00	5.00	3.50	4.50	May 3, 83
Austria	3.75	6.75	6.75	6.75	6.25	4.75	3.75	3.75	Mar 16, 83
Denmark	11.00	11.00	11.00	11.00	11.00	10.00	8.50	7.50	Apr 21, 83
Finland	8.50	9.25	9.25	8.50	8.50	8.50	8.50	9.50	July 1, 83
Ireland	16.40	12.75	17.15	18.30	14.55	14.35	14.35	14.35	Dec 23, 82
Norway	9.00	9.00	9.00	9.00	9.00	9.00	9.00	8.00	Jun 6, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.00	12.00	11.00	10.00	10.00	10.00	9.00	8.50	Apr 8, 83
Switzerland	2.00	3.00	6.00	5.50	5.00	4.50	4.00	4.00	Mar 16, 83
Argentina	89.90	87.01	98.50	87.23	128.54	128.54	128.54	128.54	Sep 30, 82
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	7.00	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	11.00	13.00	14.00	14.00	14.00	13.00	13.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1979	1980	1981	1982			1983				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	13.78	18.90	12.37	9.71	9.20	8.95	8.68	8.51	8.77	8.80	8.63
Canada	13.83	15.61	14.53	12.10	10.91	10.63	9.75	9.60	9.40	9.41	9.28
Japan	8.02	9.49	6.70	6.92	6.68	6.92	6.64	6.57	6.69	6.30	6.08
Australia	7.84	9.51	12.84	13.27	12.52	11.04	9.84	10.70	10.61	11.15	11.16
United Kingdom	14.87	13.00	9.13	8.56	8.33	6.70	10.81	10.81	7.50	7.63	n.a.
Belgium	10.65	9.68	12.78	11.13	10.51	9.43	9.80	9.97	11.82	9.83	7.45
France	12.17	10.87	15.46	13.91	13.18	12.88	12.71	12.77	12.84	12.55	12.46
Germany	9.15	9.13	10.65	7.48	7.02	6.07	5.91	5.70	5.49	4.93	5.00
Italy	16.00	17.50	20.63	18.63	18.86	19.00	19.00	19.00	19.00	18.00	18.00
Netherlands	15.67	8.37	10.67	7.23	6.13	5.31	5.10	4.96	4.41	5.18	5.22
Austria	8.50	11.50	7.50	6.25	6.38	6.00	5.88	5.88	5.38	4.88	4.38
Finland	13.53	12.50	11.30	11.70	11.50	11.50	11.00	12.00	13.00	13.00	15.00
Ireland	16.88	13.31	16.88	13.13	15.50	14.54	15.38	13.94	17.63	15.25	14.38
Spain	9.61	16.74	18.73	20.54	23.18	20.30	16.60	17.20	17.68	20.38	21.01
Sweden	11.99	11.41	13.82	13.30	12.51	8.63	4.62	10.55	11.20	11.00	11.00
Switzerland	1.25	5.75	3.38	1.87	1.38	1.25	1.38	1.50	3.13	3.88	3.88
Argentina	78.22	70.84	84.93	135.66	132.70	155.32	154.38	159.38	180.22	196.18	162.81
Brazil	37.51	62.71	103.74	125.22	136.85	150.42	119.23	125.22	164.70	266.06	220.06
Hong Kong	14.19	14.05	10.75	11.05	11.13	9.13	7.13	10.40	9.63	10.40	11.38
Korea	15.00	14.82	14.40	13.58	13.75	13.84	13.25	13.30	13.70	13.60	13.40
Philippines	16.25	15.70	14.70	13.01	10.90	16.12	11.43	14.29	14.58	10.93	n.a.
Singapore	10.17	10.23	3.96	6.16	5.34	11.45	8.22	5.88	6.04	9.96	6.63
South Africa	3.81	5.60	12.34	14.45	13.50	12.90	9.70	9.57	8.25	9.71	9.73
Eurodollars	14.41	19.22	12.29	9.88	9.40	9.15	8.72	8.73	8.86	8.90	8.94

BEST AVAILABLE COPY

Treasury bill rates

bond-equivalent yields, at or near end of month

	1979	1980	1981	1982			1983				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar.	Apr	May
United States	12.39	14.87	11.90	8.13	8.10	8.15	8.23	8.03	8.93	8.34	8.75
Canada	13.66	17.01	14.41	11.21	10.72	9.80	9.58	9.23	9.17	9.12	9.25
Japan	5.68	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	9.31	12.17	13.27	13.72	12.98	9.39	11.05	14.95	14.11	11.14	11.83
United Kingdom	16.45	13.45	15.31	9.14	8.94	9.90	10.58	10.73	10.41	9.75	9.68
Belgium	14.40	12.75	16.00	12.75	12.25	12.25	12.25	12.25	12.00	10.35	10.00
Ireland	16.37	12.84	17.35	12.74	12.87	14.70	15.38	13.76	14.39	13.81	14.01
Italy	15.62	16.87	21.36	18.05	19.09	19.11	19.09	19.09	18.88	18.27	n.a.
Netherlands	12.75	8.00	9.75	6.50	5.88	5.63	5.38	5.00	4.50	6.50	5.63
Spain	15.00	17.20	15.83	16.79	17.38	16.96	17.06	16.99	16.56	18.11	21.67
Sweden	9.74	12.87	9.20	10.26	9.20	8.18	7.14	7.14	7.13	7.13	7.13
Argentina	71.04	66.19	77.10	133.36	133.36	133.36	110.39	159.38	n.a.	n.a.	n.a.
Korea	19.53	16.35	16.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Mexico	17.89	27.73	33.22	43.02	51.26	57.44	59.56	60.90	64.24	n.a.	n.a.
New Zealand	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	12.00	12.00
Philippines	12.63	12.74	13.40	14.32	14.48	14.53	14.54	14.54	14.55	14.54	n.a.
Singapore	6.18	6.77	3.03	2.96	3.07	2.74	3.05	3.07	2.59	2.59	2.51
South Africa	4.30	6.31	14.55	16.06	15.12	14.62	12.70	9.79	11.35	11.53	11.81

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1979	1980	1981	1982			1983				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	13.70	17.62	12.78	8.68	8.68	8.81	8.29	8.30	9.34	8.56	8.63
Canada	14.15	17.50	15.25	11.65	11.00	9.95	10.00	9.40	9.45	9.45	9.50
Japan	8.01	9.80	6.30	6.89	7.06	6.80	6.51	6.69	6.57	6.20	6.36
Australia	10.30	13.00	16.00	15.50	13.80	10.65	11.30	16.00	16.25	12.90	13.00
United Kingdom	17.00	14.75	15.69	9.56	10.38	10.50	11.56	11.31	10.69	10.19	10.25
Belgium	14.45	13.10	16.00	12.85	12.50	12.35	12.35	12.25	12.25	10.45	10.00
France	12.62	11.56	15.25	13.06	12.94	12.75	12.63	12.94	12.70	12.31	12.44
Germany	8.70	10.20	10.50	7.33	7.25	6.20	5.90	5.68	5.30	5.18	5.25
Ireland	18.12	13.63	18.50	13.69	13.63	15.75	16.13	13.94	15.25	15.25	14.75
Italy	17.12	17.37	21.00	18.50	18.80	19.00	18.88	19.00	19.00	17.75	17.75
Netherlands	13.00	9.37	11.00	6.38	6.75	5.25	5.00	4.50	4.25	6.00	6.13
Spain	13.20	17.40	15.52	17.30	19.27	16.55	16.53	16.82	15.86	18.91	21.57
Switzerland	6.12	7.50	10.12	3.75	4.25	3.88	2.88	3.25	4.00	4.50	4.75
Hong Kong	14.37	17.69	14.18	11.00	11.25	10.13	8.75	8.50	9.50	10.06	11.50
Korea	19.53	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	16.00	14.25	16.05	18.00	17.25	16.75	16.25	14.00	14.00	14.00	16.00
Philippines	10.41	15.01	17.61	15.89	16.00	15.91	15.53	15.90	15.78	14.34	n.a.
Singapore	10.12	14.12	7.81	7.69	7.31	8.69	7.94	7.06	6.56	7.38	7.56
South Africa	4.72	7.12	15.47	17.21	15.75	15.26	13.33	10.41	12.11	12.16	12.21

Commercial bank deposit rates

at or near end of month

	1979	1980	1981	1982			1983				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	13.55	16.25	12.62	9.15	8.70	8.25	8.50	8.35	9.15	8.40	8.88
Canada	14.05	17.00	15.20	11.60	10.95	9.85	9.90	9.35	9.40	9.35	9.40
Japan	8.37	9.00	6.50	7.27	7.15	7.00	6.80	6.86	6.98	6.40	6.60
Australia	10.25	12.71	15.65	14.96	14.56	10.20	10.80	15.07	15.48	12.82	12.68
United Kingdom	16.81	14.87	15.69	9.50	10.44	10.31	11.63	11.25	10.75	10.19	10.25
Belgium	14.50	12.63	15.50	12.50	12.25	12.25	12.25	12.25	12.88	10.38	10.13
France	12.50	11.25	9.16	8.43	8.19	8.24	8.24	8.24	8.24	8 24	8.24
Germany	7.75	8.00	9.50	6.60	6.50	6.00	5.25	5.10	4.75	4.75	4.85
Italy	13.25	13.25	13.25	13 25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	13.50	9.50	11.00	6.38	6.75	5.38	5.00	4.50	4.25	4.25	4.25
Austria	8.50	11.25	9.63	7.75	7.13	6.25	6.00	6.00	5.50	5.25	4.69
Denmark	10.00	10.00	10.00	10.00	9.00	9.00	9.00	9.00	7.50	6.50	6.50
Finland	4.25	5.00	5.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Ireland	17.87	13.63	18.38	13.63	13.50	15.25	16.00	13.75	15.13	14.75	14.50
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	4.50	11.78	13.04	13.03	12.53	12.23	12.42	11.98	n.a.	n.a.
Sweden	8.75	9.75	10.25	9.50	9.50	9.50	8.50	8.50	8.50	8.00	8.00
Switzerland	4.75	7.50	8.75	3.00	3.00	3.00	2.00	2.00	2.75	3.50	3.75
Argentina	72.64	72.00	86.76	85.16	103.42	103.42	127.75	121.66	121.66	121.66	121.66
Brazil	55.55	96.49	110.05	107.53	122.51	118.26	116.21	117.61	119.29	128.81	137.28
Hong Kong	9.25	13.00	12.50	9.00	8.50	7.50	7.50	7.50	7.50	8.50	11.00
Korea	15.00	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	16.75	26.15	31.81	45.32	45.50	52.54	59.66	59.90	60.27	n.a.	n.a.
New Zealand	15.90	13.50	15.50	16.50	16.50	16.50	15.25	13.00	12.75	12.75	14.7[illegible]
Philippines	10.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.0[illegible]
Singapore	10.31	13.19	7.50	7.00	7.00	8.25	7.31	6.75	6.19	6.88	7.[illegible]
South Africa	4.82	7.87	14.75	16.53	15.18	15.25	13.43	10.63	12.00	12.25	1[illegible].[illegible]5
Venezuela	15.00	16.00	14.75	15.00	15.00	15.50	16.00	16.50	16.00	16.00	15.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1979	1980	1981	1982			1983				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	15.25	21.50	15.75	12.00	11.50	11.50	11.00	10.50	10.50	10.50	10.50
Canada	15.00	18.25	16.50	13.75	13.00	12.50	12.00	11.50	11.50	11.00	11.00
Japan	6.51	8.16	6.95	6.31	6.29	6.28	6.28	6.27	6.27	6.30	6.30
Australia	10.75	13.50	15.75	16 50	16.50	15.00	14.00	14 00	16.00	15.75	15.00
United Kingdom	18.00	15.00	14.50	9.50	10.00	10.00	11.00	11 00	10.50	10.00	10.00
Belgium	15.25	15.75	18.00	16.00	15.50	15.50	15.50	15.50	15.00	14.00	14.00
France	12.50	12.25	14.00	12.75	12.75	12.25	12.25	12.25	12.25	12.25	12.25
Germany	9.75	11.50	13.00	10.50	10.00	8.75	8.75	8.75	7.75	7.75	7.75
Italy	19.50	20.50	22.50	20.75	20.75	20.75	20.75	20.00	20.00	19.50	18.75
Netherlands	15.00	10.75	12.00	8.00	7.25	6.25	6.25	6.00	5.00	5.75	6.25
Austria	8.50	12.50	13.50	11.50	11.75	11.75	11.00	11.00	11.00	9.75	9.75
Denmark	13.75	13.75	15.00	15.50	14.00	14.00	14.00	14.00	12.00	11.00	11.00
Finland	9.06	9.83	9.84	8.97	8.95	8.95	8.99	8.97	8.95	8.97	n.a.
Ireland	16.00	14.50	17.25	16.50	16.50	16.50	16.50	16.50	17.50	16.25	16.25
Norway	11.00	12.50	13.75	14.00	14.50	14.50	14.50	14.50	14.50	14.50	14.50
Spain	9.00	18.50	17.04	18.35	20.39	19.00	18.34	18 48	17.65	19.27	22.40
Sweden	10.75	11.75	13.50	12.50	12.50	12.50	11.50	11.50	11.50	11.00	11.00
Switzerland	5.00	5.75	8.00	6.50	6.50	6.00	6.00	6.00	5.50	5.50	5.50
Argentina	80.00	77.00	92.60	97.33	109.50	109.50	139.92	133.83	133.83	175.00	170.00
Brazil	59.60	96.45	138.09	151.80	162.30	166.49	162.56	181.18	190.83	n.a.	n.a.
Hong Kong	14.50	17.00	16.00	12.00	11.00	10.50	10.50	10.50	10.50	11.50	11.50
Korea	18.50	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	19.00	24.25	31.81	45.99	45.51	46.12	50.29	52.12	54.24	54.16	n.a.
New Zealand	11.75	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	16.00	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	9.50	13.60	11.83	9.75	9.33	9.33	9.53	9.25	9.10	9.03	9.03
South Africa	9.50	9.50	17.00	20.00	18.00	18.00	17.00	16.00	14.00	14.00	14.00
Venezuela	13.00	15.00	15.50	16.50	16.50	17.00	17.50	18.00	17.50	17.50	17.00

Domestic government bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982			1983				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	10.20	11.46	14.33	10.79	10.74	10.61	10.98	10.57	10.85	10.52	10.91
Canada	11.32	12.69	15.27	12.63	12.18	11.69	12.28	11.80	11.70	11.18	11.30
Japan	8.63	9.04	8.32	8.50	8.32	7.76	7.89	8.07	7.80	7.77	7.80
Australia	10.08	13.00	15.00	14.25	14.40	13.00	12.75	14.75	15.00	13.85	14.80
United Kingdom	13.83	13.05	15.02	10.04	10.95	10.62	11.56	10.88	10.52	10.28	10.05
Belgium	11.13	13.04	13.99	13.23	12.87	12.66	12.48	12.60	12.49	11.59	11.63
France	12.59	14.31	16.44	15.81	15.79	15.40	14.99	14.25	14.65	14.55	14.55
Germany	7.91	9.19	9.71	8.27	8.19	7.90	7.93	7.71	7.61	7.74	8.09
Italy	14.00	16.23	21.39	19.38	19.90	19.62	19.33	19.24	18.76	18.21	n.a.
Netherlands	9.29	10.48	11.28	9.26	8.92	8.16	8.24	8.06	8.12	8.83	9.30
Austria	8.20	9.62	10.37	9.24	8.99	8.81	8.32	8.24	8.18	8.09	n.a.
Denmark	18.28	19.98	20.91	21.16	20.81	20.14	18.55	15.89	15.16	14.27	14.34
Finland	9.58	10.42	10.98	10.62	10.68	10.64	10.58	10.70	10.59	10.58	10.69
Ireland	16.64	15.63	18.28	13.95	15.53	14.54	14.98	14.26	13.96	13.62	13.51
Norway	10.04	10.44	12.37	13.29	13.32	13.32	12.75	13.00	13.00	12.75	12.75
Spain	15.11	16.15	16.20	17.08	16.75	15.92	15.81	15.99	16.47	17.05	n.a.
Sweden	11.22	12.61	12.80	13.73	13.09	13.01	13.10	12.83	12.59	12.22	12.14
Switzerland	4.20	4.63	5.40	4.31	4.27	4.22	4.22	4.23	4.46	4.42	4.51
Argentina	47.94	36.84	107.98	242.86	135.02	159.88	n.a.	n.a.	n.a.	n.a.	n.a.
New Zealand	12.98	12.99	12.55	12.82	12.96	12.84	12.77	12.95	n.a.	n.a.	n.a.
Philippines	13.20	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	9.32	11.81	13.62	12.19	11.80	11.31	10.58	11.40	12.17	12.26	12.85
Venezuela	7.29	7.39	12.50	13.50	14.00	15.00	15.00	15.00	15.50	15.75	15.75

Domestic corporate bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982			1983				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	10.75	13.00	15.50	12.00	11.75	11.75	11.88	11.53	11.63	11.00	11.75
Canada	12.07	13.62	16.48	13.61	13.58	13.05	13.54	12.99	12.92	12.29	12.59
Japan	8.34	8.60	7.70	8.10	8.10	7.55	7.25	7.26	7.39	7.37	7.16
Australia	11.65	14.25	16.50	16.75	16.75	15.00	15.00	16.00	16.25	16.00	16.00
United Kingdom	14.96	14.21	16.55	11.68	12.34	12.34	12.85	12.69	12.34	12.14	12.12
France	12.92	15.23	17.33	16.42	16.33	15.91	15.64	15.12	15.03	14.87	14.85
Germany	8.20	9.50	10.50	8.90	8.50	8.20	7.90	7.70	7.60	7.30	7.40
Netherlands	9.95	10.71	11.03	9.34	8.49	7.80	8.01	7.92	7.86	8.65	8.91
Norway	10.53	11.24	13.36	14.46	11.69	14.13	13.75	13.75	13.75	13.50	13.50
Spain	14.20	14.82	14.76	17.90	17.33	17.10	16.49	16.72	17.02	17.22	n.a.
Sweden	10.21	11.95	12.94	13.16	13.33	13.37	13.39	13.06	13.34	12.85	12.89
Switzerland	5.53	5.63	6.60	5.96	5.89	5.92	5.89	5.88	5.93	5.98	5.94
Korea	27.80	28.20	27.00	15.30	15.90	15.90	15.10	15.00	14.40	14.00	13.90
Venezuela	14.55	16.15	17.00	17.75	18.00	18.00	18.00	18.00	18.00	18.25	18.00

Key to data in tables

I. International markets

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

Categories of borrower

U.S. companies include both parent companies and their financing affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Country of borrower

The country of the borrower is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

International bond yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield.

The yield indices are simple arithmetic averages of end-of-month secondary market yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers. Occasionally the individual issues in each category are changed.

The number of issues represented in each of the indices is as follows:

Long-Term, U.S. companies, U.S. dollar — —ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc — four foreign bond issues.

Long-term, European companies, U.S. dollar — ten Euro-bond issues.

Long-term, European companies, German mark — ten Euro-bond issues.

Long-term, governments, U.S. dollar — six Euro-bond issues (governments of Italy, Denmark, and France).

Euro-currency deposit rates

All data are prime banks' bid rates for deposits in London. Offer rates commonly used as a basis for Euro-dollar lending are generally .125% above bid rates.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — overnight financing of Treasury bills (LTN) until November 1978. New series as of December 1979, rates paid for federal funds.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Euro-dollars — prime banks' bid rate for overnight money.

Treasury bill rates

Argentina — 28-day Treasury bills.

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit.

Sweden — new issues of 3-month Treasury bills.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month negotiable certificates of deposit of investment banks net of taxes.

Canada — 3-month time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Key to data in tables — continued

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 3-month time deposits until April 1979. New series as of May 1979, 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month time deposits. Higher rates may be negotiated for 12-month or more time deposits in large amounts.

Philippines — 3-month time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — deposits at 6-months' notice.

Switzerland — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for large amounts until December 1976. New series as of January 1979, similar rate for domestic depositors only.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — weighted average investment bank lending rate for multinational companies including tax on financial obligations (IOF).

Canada — prime rate.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .333% prior to July 1978, .25% thereafter, per quarter on the total line of credit.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — maximum legal rate for discounting commercial bills plus a commission of 1% per annum until December 1979. New series as of January 1980, preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — actual interest rate on 3-month loans to prime industrial borrowers.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

United Kingdom — clearing bank base lending rate.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for prime borrowers until December 1978. New series as of January 1979, similar rate for domestic prime borrowers only.

Domestic government bond yields

Argentina — 7% National Adjustable Bond, third series maturing in 1985, inflation adjusted by the Official Correction Index.

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 10% government bond maturing 1983 until December 1977; 10% government bonds maturing 1986 until September 1980. New series as of October 1980, 12% serial bonds maturing 2001.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

South Africa — 25-year government bonds.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Domestic corporate bond yields

Australia — long-term secured debentures, indicated by Australian United Corporation.

Canada — McLeod, Young, Weir Co. Ltd., average yield on ten industrial bonds.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — FAZ 6% industrial bond average until September 1978. New series as of October 1978, Bundesbank average yield on industrial bonds.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Statistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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World Financial Markets

Morgan Guaranty Trust Company of New York

August 1983

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- The austerity program, 3
- Implications of the package, 4
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Effective exchange rates: update and refinement, 6

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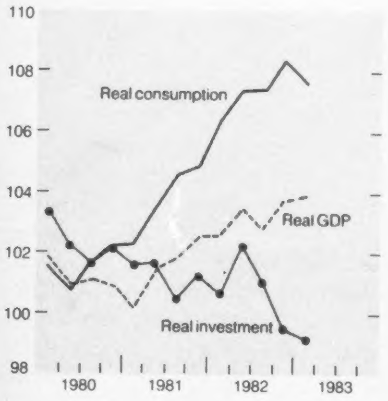
Chart 1

GDP and domestic demand

index, 1979 = 100



The French austerity program

The austerity program imposed last March, along with devaluation of the franc, signified that the government recognized that it could no longer sustain its economic policies of the past two years. The tough, realistic program will help reduce the large current account deficits and high inflation that were among the primary forces behind the weakness of the franc. While these policies will not eliminate the need for further realignments of the franc exchange rate in the EMS, they could lengthen the interval between them and they could forestall such foreign exchange crises as occurred within nine months of the EMS realignments in 1981 and 1982. Without that change in economic policy, France might have had to drop out of the EMS, at least temporarily, and might have resorted to protectionism to cope with its external deficit.

The original Socialist program of expansionary economic policy was intended to speed recovery of the sluggish economy inherited from the previous government and to insulate the domestic economy from the world recession, then in its early stages. Two miscalculations contributed to an unexpectedly large increase in the current account deficit. The first was underestimating the length and severity of world recession. This led France to experience an unexpectedly large growth divergence from its trading partners. The second was failure to recognize that merely maintaining international price competitiveness through periodic EMS realignment would not be enough by itself to limit the trade deterioration. France would have required franc devaluations that went well beyond offsetting inflation differentials to compensate for the trade effects of the higher growth differential. It is unlikely, however, that the other member countries would have allowed France to gain a significant competitive edge through exchange rate realignments within the EMS.

The initial policies and their impact

The initial economic policies of the Mitterrand government gave a strong fillip to domestic private consumption and sustained inflation at a relatively high level. The government legislated reduced working hours and increased vacation time. It increased the minimum wage and made a commitment to raise it in

Chart 2

Prices and wages

percent change from previous year

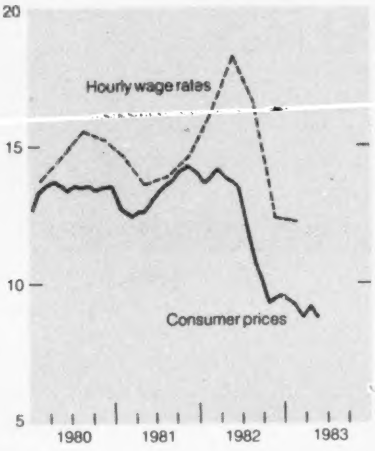
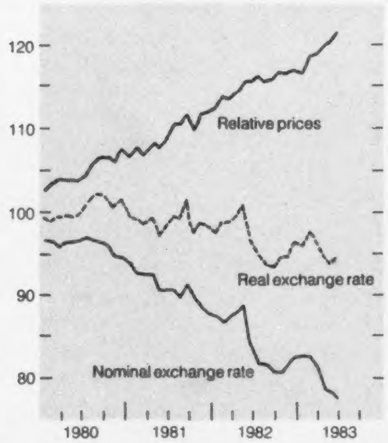


Chart 3

French franc: relative manufactures prices and effective exchange rates

indices, 1975-79 = 100



*Ratio of French prices to the trade-weighted average of trading partners' prices

real terms. The government also increased various transfer payments to individuals. Only part of these higher transfer payments and other increased spending was financed by increasing taxes and instituting a new wealth tax. With such stimulative fiscal policy, the general government budget swung sharply from a surplus equal to 0.3% of GDP in 1980 to deficits of 1.6% of GDP in 1981 and 2.9% in 1982.

Monetary policy accommodated this strongly expansionary fiscal policy. On a four-quarter basis, domestic credit increased over 16% in 1981 and 1982. A chief factor in this rapid growth in domestic credit was lending to the government sector, which increased 22% in 1982 after a 23% rise in 1981. Credit to the private sector rose only slightly more than inflation.

With the government's expansionary measures, the French economy began to grow moderately in the second half of 1981. This growth, which continued into the first quarter of 1983, came essentially from increased consumption expenditures while investment stagnated (see Chart 1). Meanwhile, other countries were undergoing recession. The French export-weighted growth differential with respect to foreign countries swung to +1.4% in 1982 from —1.0% in 1981 and —1.3% in 1980.

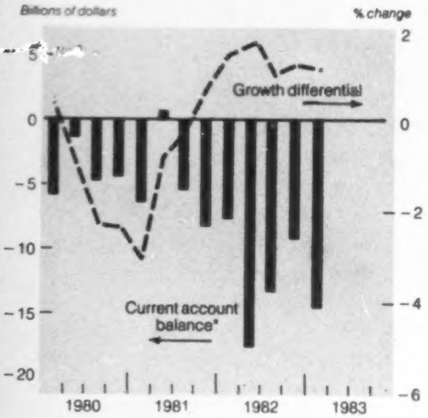
With an expanding economy, French inflation continued at relatively high levels despite a decline in world commodity prices. What progress has occurred in reducing inflation can be ascribed partly to the price policies implemented following the first two franc devaluations. The first EMS realignment was followed by a temporary partial price freeze. The second EMS realignment was followed by a four-month freeze on most prices and wages (excluding the minimum wage) and subsequently by government attempts to moderate wage and price increases through informal jawboning and through agreements with industrial and service firms.

Given these measures, domestic inflation receded from a 12-month increase of 13.6% in December 1980 and 14% in December 1981, to 9.7% in December 1982. At the same time, however, inflation abroad fell rapidly. As a result the French export-weighted manufacturing price inflation differential remained high at 4.1% in 1982 against 4.3% in 1981. Domestic wage increases continued in double digits even after moderating somewhat (see Chart 2). Rising unemployment, which went from a 6.3% rate in 1980 to 8.6% in 1982, was not sufficient to curb the rapid increase in nominal wages. Adding to the increase in labor costs and a decline in profitability was the rise in the indirect costs of employment implied by such measures as the increase in vacation time.

Devaluations of the franc kept the real effective exchange rate from appreciating (see Chart 3). However, an unchanged real effective exchange rate could not compensate for the adverse effect on the balance of payments of a positive growth differential. The sensitivity of French imports to increases in domestic expenditures is much higher than the sensitivity to relative price changes. Rough calculations indicate that to keep the volume of imports from increasing in response to a 1% increase in real domestic consumption expenditures, the real exchange rate would have to depreciate by more than 3%. Furthermore, the exchange rate effects are felt with a longer lag than are the growth effects, so that even if the franc were to depreciate in real terms, the effects would not become apparent for some time.

Chart 4

Growth differential and current account



*Seasonally adjusted annual rates

**Four-quarter change in ratio of French real GDP to the export-weighted average of trading partners' real GDP

Table 1

Balance of payments

billions of dollars

	1980	1981	1982
Current account	—4.2	—4.8	—12.1
Trade balance	—13.4	—10.0	—15.9
Invisibles	9.2	5.2	3.8
Services	13.4	9.4	8.4
Transfers	—4.2	—4.2	—4.6
Long-term nonbank capital flows	—1.4	—3.9	4.4
State-authorized borrowing	4.3	6.2	11.9
Direct investment	0.2	—2.2	—1.4
Other	—5.9	—7.8	—6.2
Short-term nonbank private capital flows	2.8	—2.3	1.1
Bank capital flows	7.2	7.8	2.2
Errors and omissions	2.3	—2.2	—0.9
Official monetary position[1]	—6.7	5.3	5.2

[1] Minus sign indicates increase in net external assets, including official reserves.

The French current account deteriorated rapidly (see Chart 4 and Table 1). Following a $4.8 billion deficit in 1981 it nearly tripled to $12.1 billion in 1982. The larger current account deficit was chiefly a result of a fast buildup in the trade deficit, which rose from $10 billion in 1981 (balance of payments basis) to nearly $16 billion in 1982. Overall, import volume in 1982 rose 2.4% even though energy imports declined 6.9%. Exports, however, fell 3.5% in volume terms. The decline in export volume can be traced not only to weak foreign demand but also to the strength of domestic markets, which diverted output from the export sector.

In addition to the current account deficit, France experienced sizable capital outflows. Last year, for example, net outflows of $7.6 billion were recorded on long-term capital account, excluding officially authorized foreign borrowing, following a $10 billion outflow in 1981. The current account deficits plus long-term capital outflows, which together totaled over $34 billion during 1981-1982, were partly covered by a $10.5 billion drawdown of net official reserves. However, the larger part was financed by borrowing abroad. Net officially authorized long-term borrowing reached nearly $12 billion in 1982, up from $6.2 billion in 1981. In addition, French banks increased their net external liabilities by about $10 billion. Growing concern about the resulting rapid buildup of external debt was another factor that impelled the government to change policy direction last spring.

The austerity program

The first and second EMS realignments offset France's adverse inflation differential but were not accompanied by supporting measures to curtail domestic demand. The third realignment, however, was coupled with an austerity package that recognized the contribution of growing domestic demand to the surge in net imports. The government is now attempting to restrain and even reduce domestic consumption. The initial targets of the austerity program were to halve the trade deficit in 1983 and to reduce consumer price inflation to 8% by year-end. Worse-than-anticipated trade and inflation results for early 1983 (covering the period prior to full implementation of the new measures) have made achievement of these targets improbable. The government, acknowledging that the austerity program will have to extend through 1984, is now aiming for halving the trade deficit by next spring while reducing inflation to 5% by the end of 1984. Progress in reducing inflation may be slower than targeted by the government, but the trade deficit is likely to decline rapidly.

The austerity plan attempts to cut government spending or increase taxes by almost FF65 billion, close to 2% of GDP. More important, the program is designed particularly to reduce consumption expenditures. A decline in real consumption expenditures is rare in France, having occurred in only five quarters since 1970 and never for two consecutive quarters. This austerity package will induce an unprecedented decline in real consumer spending.

The fiscal measures that will also cut heavily into consumer income include over FF35 billion in increased direct and indirect personal taxes. Social security taxes will be raised by a surcharge of 1% of taxable income above certain benchmarks. In addition, most taxpayers will have to extend a compulsory three-year loan to the government equal to 10% of their combined income and wealth tax in

Table 2

French trade balance[1]

billions of dollars

	1980	1981	1982
Total	—23.5	—19.2	—23.0
by area			
OECD	—12.2	—11.3	—16.6
EEC	—4.6	—5.6	—9.8
Germany	—4.0	—4.2	—5.8
OPEC	—15.3	—11.3	—8.2
Other developing countries	4.8	5.3	4.0
COMECON	—0.3	—0.9	—1.5
Other countries	—0.5	—1.0	—0.8
by commodity			
Agriculture and food	2.8	3.8	2.3
Energy	—31.5	—29.7	—27.2
Intermediate industrial products	—1.9	2.6	—4.1
Capital equipment	6.3	6.9	4.9
Cars and transport equipment	6.6	5.0	3.2
Household goods	—2.9	—2.2	—3.3
Miscellaneous	—3.0	—3.3	—2.5

[1] Customs trade (FOB/CIF).

Table 3

Output and prices

% change

	1981	1982	Proj. 1983
Real GDP	0.3	1.7	—0.5
Personal consumption	2.1	3.5	—1.0
Government consumption	0.7	0.8	0.5
Total investment	—1.4	0.5	—0.5
CPI (Dec/Dec)	14.0	9.7	8.5
Wages (Q4/Q4)	14.8	12.4	10.5

1982. Higher public tariffs, new tobacco and alcohol taxes, and new gasoline taxes (to prevent domestic prices from declining in line with world oil prices) will also lower disposable income. More recently, the government has also raised levies for unemployment funds.

In addition, expenditure cuts of FF30 billion will be made in the public sector. The government has pledged to keep the fiscal deficit from exceeding 3% of GDP. Although the target deficit had been at 3% of GDP before the latest measures, this target was based on overly optimistic economic growth projections.

Under the austerity plan, monetary policy will be tightened this year. The targeted growth in M2 will be reduced to 9% from the initial target of 10%, which was already lower than the 12.5%-13.5% range for 1982, when actual growth was 12.0%. Furthermore, lower credit ceilings for all of 1983 went into effect July 1, and are intended to limit total credit growth to 10% this year. The new credit ceilings restrict consumer credit growth in particular, while encouraging export finance.

Implications of the package

This austerity package is fairly severe, especially since economic growth seemed to be slowing even before the policies were implemented. In the first quarter of 1983, real GDP grew only 0.1%, and this growth was entirely the result of strong inventory accumulation. Final demand fell. A decline in real consumption expenditures of 0.5% suggests that the wage-price freeze instituted after the 1982 EMS realignment reduced purchasing power and lowered consumer confidence. These deflationary effects will now be reinforced by the austerity package. Real GDP is projected to decline by at least 0.5% in 1983 (see Table 3). A decrease in the personal savings rate will probably cushion the program's full impact on consumption this year. Nonetheless, real consumption could decline by 1%.

The fall in real GDP and the concomitant increase in unemployment should help moderate wage demands in the remainder of the year. While the government is committed to stabilizing the level of unemployment, it is difficult to envisage how this can be achieved in the face of weak aggregate demand, a growing labor force, and higher labor costs induced by tax increases. Price increases will be contained by the low level of aggregate demand. In June the annual inflation rate fell to just below 9%. By December the 12-month rate of consumer price inflation could ease to about 8½%. The CPI is likely to show a further deceleration to about 7% by December 1984. Inflation could decline even faster if some of the recent depreciation of the franc against the dollar is reversed and import prices in franc terms begin to decline.

The austerity measures will induce a sharp movement toward balance in the external trade account by reducing domestic consumption and, thus, the demand for imports. At the same time economic recovery abroad, especially in Germany, will spur a rise in the demand for French exports. The French current account deficit is now projected to fall to about $7½ billion this year from $12.1 billion last year, with the trade deficit narrowing to $10 billion from $16 billion in 1982 (see Table 4). To reach these levels the trade deficit will have to decline rapidly in the coming months, since the deficit ran at close to a $12 billion annual rate in January-June. The current account deficit could shrink

Table 4

Current account projections

billions of dollars

	1982	1983	1984
Exports	91.4	94.8	103.8
Imports	—107.3	—104.9	—109.1
Trade balance	—15.9	—10.1	—5.3
Services	8.4	6.6	7.0
Transfers	—4.6	—4.0	—3.7
Current account	—12.1	—7.5	—2.0

to about $2 billion next year.

The austerity measures should mitigate the need for another franc devaluation until next spring or early summer if sufficient funds are available both to defend the franc in the short run and to finance the current account in the intermediate term. The reflow of short-term capital since the March realignment has replenished French official reserves, which stood at nearly $19 billion (excluding gold) as of the end of May. Furthermore, the French government has been given an ECU 4 billion ($3.7 billion) loan by the EEC. However, substantial additional borrowing from international markets will be required during the remainder of this year and in 1984 to cover both the projected current account deficits and long-term capital outflows.

Conclusion

The current economic program will move the French economy toward external balance and lower inflation by the end of 1984. While unemployment will increase in the short run, renewed growth in 1985 in the context of a stronger world economy should allow unemployment to fall gradually thereafter. However, failure to sustain the austerity package and to restrain wage increases could mean continuing large trade deficits and an early renewal of attacks on the franc. Under such circumstances, France might drop out of the EMS and erect strong protectionist barriers to regulate trade. Protectionist policies, however, are unlikely to produce long-term economic growth, since they would divert resources into inefficient industries. Moreover, French import restraints undoubtedly would trigger retaliatory actions by trading partners, which would hit French exports. For an economy as interdependent as that of France, where exports of goods and services account for nearly one third of GDP, the protectionist route would be counterproductive. Thus, the French government has little choice but to maintain its current austerity program until the external imbalance is corrected.

The French measures also have broader implications for European economic prospects. Just as French growth in 1982 and the concomitant rise in the trade deficit helped bolster export demand for other economies, particularly Germany, the French downturn this year will moderate the recovery elsewhere in Europe. The German economic recovery in 1983 will have to be led by domestic demand in contrast to previous recoveries that were spurred by exports. Sluggish exports also imply that there may be little, if any, improvement in Germany's current account performance during the remainder of this year. Further, French success in reducing inflation should put more pressure on Italy to adjust its economic policies, especially fiscal policy, to bring inflation closer to the levels in the other major industrial countries.

The French program strengthens the EMS by showing that member countries are willing to change policies to stabilize exchange rates. France has changed its policy from one of expansion to one of restraint. At the same time, Germany appears to be following a more expansionary policy, at least in the monetary area, than had been anticipated earlier. German interest rates were reduced rapidly last spring and the monetary authorities have not tightened policy in order to correct the current overshooting of the targeted monetary aggregate. The EMS experience shows that exchange rate stability requires policy convergence.

Effective exchange rates: update and refinement

The July issue of *World Financial Markets* addressed allegations that the dollar is overvalued and concluded that the extent of overvaluation is substantially smaller than some believe. The focus was on selection of a suitable base period against which the present level of the real effective exchange rate could best be judged. Rather than the period of the late 1970s, it was suggested, the average experience of 1980-82 offers a more useful — although not necessarily definitive — reference base.

The measure of dollar overvaluation is also influenced by the methodology of weighting other currencies in an overall construction of the dollar's real effective exchange rate index. This article discusses the methodology behind Morgan's bilaterally weighted calculations. It explores a modified and conceptually preferable method of appraising competition among exporters in both their own and third markets. Because, in the end, the refinement does not greatly change the index values, the practical merits of simple bilateral weighting come through unscathed. New bilateral indices, calculated with 1980 trade weights and on a 1980-82 base period, are presented for the dollar and 15 other currencies, superseding those that have been published in the appendix each month, which used a March 1973 base.

Before the intricacies of weighting methodology are addressed, the competitive disparities presently existing between the United States and its industrial-country competitors should be noted. Column 1 in Table 5 sets out, as index numbers to the base 1980-82=100, the direct ratio of U.S. wholesale prices of nonfood manufactures to the corresponding price index for each of 15 competitor countries expressed in dollar terms. (The comparison must obviously be made in a common currency.)

According to the theory of purchasing power parity (PPP), prices of similar products should not materially deviate in freely competitive markets. The prediction is seen to hold with remarkable precision in the competitive position of U.S. firms vis-à-vis Canadian producers. Relative to Japanese prices, however, U.S. prices are up 11% over the base period. Relative to European producers, the rise in U.S. prices ranges from 14%, in the case of Switzerland, to as much as 28%, with respect to Spain and Sweden. While inconsistencies of price coverage mean that these figures should not be taken too literally, it is clear that deviations from PPP can assume major proportion and, whether or not permanently tenable, can endure for extended periods. Moreover, it is clear that an overall measure of the U.S. competitive position is sensitive to the relative weights applied to trade competitors.

Three basic approaches to the choice of weights are prominent, differing considerably in sophistication and ease of comprehension. The simplest approach, often known as *multilateral* weighting, employs currency weights in direct proportion to the economic size of the corresponding countries. Columns 3 and 4 in Table 5 set out weights proportioned to two possible measures of size of 16 major industrial economies: 1980 GNP, and total external trade (exports plus imports) in manufactures. On the basis of external trade, Canada's open economy assumes greater weight than under the GNP criterion. The same is true for most of the European countries. Japan's weight shrinks considerably, by contrast, reflecting the not-so-well-known fact that external trade occupies a relatively small place in Japan's economy. Despite these differences, the two sample schemes of multilateral weighting provide virtually identical readings of the dollar's real effective exchange rate as of the second quarter of 1983: nearly 17% above the 1980-82 level.

The simplicity of multilateral weighting is purchased at the cost of theoretical underpinning. The multilateral approach lacks any articulation of how currency or price changes affect trade flows between countries. Thus, it cannot be presumed to measure competitiveness appropriately. Intuitively there is

Table 5

Real exchange rate of the dollar: 1983 Q2, various measures

index numbers, 1980-82=100; weights in percent

	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*	*(11)*
			Weighting systems								
	Indices of U.S. bilateral competitiveness		*Multilateral*			*Bilateral trade in manufactures, 1980*					
						Direct (excluding third markets)[4]			*Modifed (including third markets)*		
									Exports		
	Direct[1]	*Modified*[2]	*1980 GNP*	*Total 1980 trade in manufactures*	*IMF MERM system*[3]	*Imports*	*Exports*	*Total*	*Direct*[5]	*Restated*[6]	*Total*
Partner											
Canada	99.6	101.7	3.5	5.5	20.6	27.4	33.9	30.3	18.4	17.7	23.3
Japan	110.8	110.9	14.1	6.1	21.6	33.5	10.7	23.2	5.8	21.5	28.4
Australia	114.3	114.5	1.9	1.2	4.9	0.6	4.6	2.4	2.5	2.4	1.4
France	122.9	122.0	8.9	9.9	10.3	4.9	7.1	5.9	3.9	8.4	6.6
Germany	116.7	117.3	11.1	17.4	13.2	12.2	9.3	10.9	5.0	14.2	13.3
Italy	119.2	119.2	5.4	6.9	7.6	4.2	4.0	4.1	2.2	6.1	5.1
United Kingdom	120.2	119.7	7.1	9.0	5.1	7.3	11.5	9.2	6.3	10.3	8.8
Austria	114.2	115.5	1.1	2.1	1.1	0.4	0.4	0.4	0.2	0.8	0.6
Belgium	126.9	122.1	1.6	6.7	2.5	2.0	5.3	3.5	2.8	3.3	2.6
Netherlands	117.0	118.1	2.3	5.6	3.3	1.4	5.0	3.0	2.7	3.4	2.4
Spain	128.6	127.0	2.9	1.7	2.5	1.0	1.8	1.4	1.0	2.7	1.8
Switzerland	110.4	114.2	1.4	3.6	1.7	2.4	3.3	2.8	1.8	2.9	2.6
Denmark	117.7	118.6	0.9	1.4	1.4	0.5	0.7	0.6	0.4	0.7	0.6
Norway	117.6	118.8	0.8	1.1	1.2	0.5	0.7	0.6	0.4	0.7	0.6
Sweden	128.7	124.7	1.7	3.1	2.8	1.7	1.7	1.7	0.9	2.2	1.9
Other areas											
Africa		119.0							2.5		
Latin America		116.2							19.7		
Middle East		116.9							5.9		
Far East		113.7							11.4		
COMECON and other		118.1							6.4		
Total			100	100	100	100	100	100	100	100	100
Dollar's real effective exchange rate index[7]			116.6	116.6	113.3	110.8	111.4	111.2	113.8	113.8	112.1

[1] Ratio of U.S. wholesale price index for nonfood manufactures to partner's corresponding price index expressed in dollar terms.

[2] Ratio as in footnote [1], but modified to allow for shares in the partner's home market held by other industrial-country exporters (see Table 8); for nonindustrial markets comparison is solely with industrial-country competitors.

[3] The IMF multilateral exchange rate model also allocates minor weights in the dollar calculation to the Irish punt and Finnish markka.

[4] Bilateral weights of fifteen industrial countries in U.S. manufactures trade.

[5] Bilateral weights of industrial and nonindustrial export markets in total U.S. manufactures exports.

[6] Mathematical restatement of weights in column 9 made possible by the exclusion of currencies and competitive role of nonindustrial-country suppliers.

[7] Geometric-weighted average index of U.S. price competitiveness.

something wrong with a system that assigns Canada — the United States' biggest trading partner — a smaller weight than Italy in the dollar effective rate calculation. Moreover, the multilateral version using external trade weights is arbitrarily influenced by national boundaries. For example, most external manufactures trade of European countries takes place with other European nations. If Europe were treated as a single area, rather than as many individual countries, its weight in the multilateral calculation would be sharply reduced.

The opposite extreme in theoretical complexity of weighting systems is represented by the IMF's effective exchange rate calculations, whose methodology also is employed by the Bank of England. The IMF weights for the dollar's effective exchange rate are shown in column 5 of Table 5. By comparison with the simple multilateral systems, the Fund calculation places much greater weight on Canada and Japan, leading to a lower estimate of the dollar's real effective appreciation since the 1980-82 base period. The Fund's concept of the effective exchange rate is carefully attuned to the competitive impact of currency changes on market shares. The IMF weights are derived from the Fund's Multilateral Exchange Rate Model (MERM), which embodies an intellectually sophisticated treatment of production and trade, taking account of demand and supply elasticities as well as complex feedback effects. Unfortunately the model rests on detailed assumptions and fragile elasticity estimates, lessening the reliability of the implied weights. Why, for example, should Australia's weight in the dollar effective rate calculation be almost as large as that of the United Kingdom?

A less ambitious, yet more readily intelligible approach relies on *bilateral* trade data. The 1980 pattern of U.S. manufactures imports and exports with fifteen industrial countries is shown in columns 6 and 7 of Table 5. Bilateral shares in total manufactures trade, column 8, are applied directly as the weights in the effective exchange rate indices long published here.

For the past five years Morgan's calculations have used the 1976 pattern of trade. Generally, bilateral trade shares change only slowly over time. Remarkably, however, Canada's share of U.S. manufactures trade, both exports and imports, slumped by fully nine percentage points between 1976 and 1980, reflecting trends in automotive trade and the modest trade growth between economies already closely integrated. Thus Europe and Japan receive greater weight in the dollar's effective rate calculation based on the more recent trade pattern. Since deterioration of U.S. price competitiveness has been severe vis-à-vis Europe but negligible vis-à-vis Canada, the increased weight of Europe raises the dollar's apparent overvaluation by 2½ percentage points compared with the reading obtained from the older trade pattern. By contrast, the 1980 trade pattern makes no material difference to the calculated effective exchange rate indices of currencies other than the dollar. Using the weight patterns shown in Table 6, Table 7 reports historical data for the effective exchange rates of 16 leading currencies.

The effective exchange rate index for the dollar calculated with bilateral total trade weights can be viewed as the composite of two indices addressed separately to U.S. competitiveness in its home market vis-à-vis imports and to U.S. competitiveness vis-à-vis foreign rivals in export markets. The two indices need not be the same, although in the second quarter of this year the

Table 6

Bilateral trade weights

percent, derived from 1980 total trade in manufactures

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Partner																
United States	0.0	83.5	54.9	31.5	10.0	9.9	9.0	16.2	3.7	6.7	7.1	13.5	9.3	7.3	9.0	10.1
Canada	30.3	0.0	4.0	2.7	0.7	0.8	0.8	2.6	0.4	0.4	0.5	0.9	0.7	0.6	0.7	1.4
Japan	23.2	4.0	0.0	25.5	3.0	3.6	2.2	4.8	2.7	2.0	2.3	4.6	4.2	3.1	5.1	3.5
Australia	2.4	0.6	4.7	0.0	0.3	0.6	0.6	2.2	0.2	0.3	0.3	0.3	0.4	0.3	0.2	0.9
France	5.9	1.3	4.1	2.6	0.0	18.0	23.1	11.8	5.4	21.0	10.6	23.3	12.6	6.2	5.0	7.3
Germany	10.9	2.3	10.6	8.8	26.6	0.0	29.8	18.5	51.8	27.3	33.9	19.8	32.5	26.4	19.7	22.8
Italy	4.1	1.0	2.4	3.9	16.6	12.2	0.0	7.4	10.5	6.3	5.9	12.8	10.6	4.0	3.1	4.8
United Kingdom	9.2	3.7	6.7	16.4	9.1	8.9	8.8	0.0	4.6	10.4	10.5	9.1	10.5	11.6	13.1	13.7
Austria	0.4	0.2	0.7	0.4	1.2	6.7	3.1	1.2	0.0	0.8	1.3	0.8	5.4	1.9	1.7	2.3
Belgium	3.5	0.7	2.2	1.7	13.7	11.0	6.1	8.1	2.7	0.0	18.4	4.0	4.3	3.8	3.4	4.4
Netherlands	3.0	1.0	3.0	1.6	5.7	11.5	4.8	8.6	3.3	16.3	0.0	4.5	3.7	5.5	3.9	5.1
Spain	1.4	0.3	1.1	0.4	4.5	2.1	3.1	2.2	0.6	1.1	1.3	0.0	1.3	1.0	0.9	1.1
Switzerland	2.8	0.5	2.5	1.4	5.0	7.2	5.4	7.8	8.8	4.1	2.4	3.0	0.0	2.9	2.2	3.3
Denmark	0.6	0.1	0.8	0.4	0.9	2.2	0.8	2.1	1.2	0.9	1.5	0.8	1.1	0.0	9.0	8.9
Norway	0.6	0.1	0.8	0.3	0.6	1.5	0.5	2.0	0.9	0.6	1.2	0.6	0.8	7.8	0.0	10.4
Sweden	1.7	0.7	1.6	2.6	2.2	3.8	1.9	4.8	3.0	1.9	2.7	1.9	2.6	17.6	23.0	0.0
Total of countries listed	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which, Europe	44.1	11.9	36.3	40.3	86.0	85.1	87.3	74.3	93.0	90.6	89.8	80.7	85.3	88.7	85.1	84.0
Countries listed, as % of world total																
1973	71.5	93.9	52.7	74.5	78.8	77.6	77.3	66.5	82.3	88.3	87.7	82.3	81.5	84.8	80.8	77.2
1976	64.7	91.9	47.9	67.1	73.8	73.2	72.7	67.3	78.5	86.8	85.4	78.8	76.9	83.4	83.7	74.2
1980	62.3	90.2	48.5	67.1	76.2	76.1	73.5	62.4	81.7	86.7	85.6	72.4	80.7	82.7	70.5	75.4

Modified bilateral trade weights

percent, derived from 1980 trade in manufactures

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Partner																
United States	0.0	77.5	45.6	30.6	12.4	12.9	11.5	17.7	5.6	8.9	9.3	16.6	11.1	9.4	10.2	12.6
Canada	23.3	0.0	3.5	2.6	0.8	1.0	0.9	2.3	0.5	0.6	0.7	1.0	0.8	0.7	0.7	1.3
Japan	28.4	6.8	0.0	26.4	6.0	7.4	5.7	9.0	4.6	4.2	4.7	7.6	6.9	5.2	6.7	6.6
Australia	1.4	0.4	2.7	0.0	0.3	0.6	0.5	1.6	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.7
France	6.6	1.9	6.4	3.0	0.0	17.2	20.5	12.0	6.7	18.8	10.8	18.8	12.1	6.9	6.0	7.9
Germany	13.3	3.7	13.6	9.7	26.5	0.0	28.4	20.7	47.9	27.7	33.3	20.0	31.1	26.8	20.8	24.5
Italy	5.1	1.5	5.0	4.0	15.6	12.6	0.0	8.1	10.6	7.0	6.5	11.9	10.3	4.9	4.1	5.5
United Kingdom	8.8	4.0	9.3	14.6	9.3	9.8	9.2	0.0	5.6	10.2	10.3	8.7	10.4	11.3	12.8	12.8
Austria	0.6	0.2	0.9	0.6	1.2	5.3	2.5	1.4	0.0	1.0	1.3	1.0	4.2	1.9	2.1	2.2
Belgium	2.6	0.8	2.5	1.4	10.7	9.1	5.7	6.2	3.1	0.0	13.8	3.8	4.0	4.0	3.5	4.0
Netherlands	2.4	0.8	2.6	1.5	5.2	9.2	4.4	6.7	3.2	12.9	0.0	3.9	3.5	4.9	3.4	4.4
Spain	1.8	0.4	1.4	0.4	4.2	2.3	3.0	2.2	0.8	1.4	1.5	0.0	1.4	1.1	0.9	1.2
Switzerland	2.6	0.7	2.9	1.6	4.0	5.8	4.2	4.4	6.6	3.6	2.4	3.0	0.0	2.8	2.3	3.0
Denmark	0.6	0.2	0.7	0.5	0.8	1.8	0.7	1.6	1.0	0.8	1.2	0.7	0.9	0.0	7.0	6.5
Norway	0.6	0.2	0.8	0.5	0.7	1.4	0.6	1.8	0.9	0.6	1.1	0.6	0.7	5.4	0.0	6.8
Sweden	1.9	0.8	2.0	2.6	2.3	3.6	2.1	4.2	2.7	2.0	2.7	2.1	2.4	14.4	19.1	0.0
Total of countries listed	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which, Europe	46.9	15.3	48.2	40.4	80.5	78.1	81.3	69.5	89.1	86.0	85.0	74.5	80.9	84.4	82.0	78.9

Table 7

Bilateral nominal effective exchange rates, 1980-1982=100

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1970	113.3	118.5	69.2	115.5	111.3	66.2	224.5	146.6	80.7	91.4	81.9	142.7	51.9	112.9	92.1	118.9
1971	110.1	121.9	70.4	115.6	108.7	68.2	222.0	146.1	80.6	91.1	82.6	140.9	53.1	111.4	91.4	117.9
1972	102.7	122.7	78.4	114.5	110.9	69.4	218.7	139.6	80.7	93.5	83.4	142.6	53.3	110.8	91.5	118.7
1973	95.5	119.6	83.5	128.8	114.4	76.2	194.0	122.6	84.1	94.5	85.8	143.4	58.0	114.9	95.1	116.6
1974	97.3	123.0	77.7	134.3	107.0	80.0	175.1	117.9	87.3	95.7	90.0	149.4	62.8	114.4	100.4	115.2
1975	97.3	118.1	75.7	122.2	116.7	80.3	165.5	106.9	89.2	96.4	91.8	143.9	69.7	116.5	102.4	119.2
1976	100.9	123.5	78.3	120.2	113.6	85.2	138.4	91.3	91.6	98.9	94.0	134.5	77.8	117.9	104.5	121.4
1977	100.4	114.1	86.8	106.3	108.0	91.6	126.9	86.4	95.4	104.1	97.9	118.1	79.3	116.2	105.6	115.7
1978	92.1	104.0	107.0	98.9	106.4	96.1	118.0	86.1	95.5	106.3	99.6	105.8	96.6	116.2	98.8	103.9
1979	90.9	100.4	99.5	94.7	106.0	99.8	112.8	90.9	96.7	106.8	100.3	114.5	97.1	114.4	96.5	103.4
1980	90.7	100.4	95.6	96.0	106.4	100.1	108.4	99.7	99.5	105.9	100.2	106.6	95.4	105.2	98.1	103.8
1981	99.5	100.1	105.7	103.8	100.4	97.2	98.8	102.3	98.8	101.7	97.1	99.3	98.2	99.2	100.0	103.2
1982	109.8	99.5	98.6	100.2	93.2	102.7	92.8	98.0	101.7	92.4	102.6	94.1	106.4	95.6	101.8	93.0
1980Q1	91.7	101.1	88.4	94.5	106.9	101.5	111.2	95.6	99.6	106.3	100.8	112.4	95.0	106.3	97.7	103.5
1980Q2	91.3	100.5	93.3	95.5	106.7	100.5	109.0	97.9	99.4	106.6	100.0	107.8	95.0	105.2	98.5	103.6
1980Q3	88.9	100.9	97.3	96.3	107.1	100.2	107.7	100.3	100.0	106.5	100.7	103.7	95.9	105.6	98.1	103.6
1980Q4	90.7	99.1	103.6	97.4	105.2	97.9	105.8	105.3	98.7	104.3	99.3	102.4	95.5	103.4	98.3	104.6
1981Q1	93.6	99.1	109.2	99.4	103.0	96.5	103.0	108.9	98.0	102.2	97.2	100.1	93.2	100.1	98.3	105.5
1981Q2	99.4	100.1	105.9	103.1	100.6	96.4	99.0	105.5	98.3	101.6	95.7	100.4	94.6	97.9	100.2	106.8
1981Q3	104.4	100.2	103.3	108.2	100.0	96.1	98.3	98.0	98.6	101.6	95.8	99.3	98.1	98.6	100.4	104.8
1981Q4	100.9	101.2	104.6	105.3	97.9	99.7	94.9	96.2	100.5	101.5	99.8	97.4	107.6	100.2	101.7	95.9
1982Q1	104.5	100.5	102.3	102.8	96.5	99.8	94.0	98.2	100.3	96.4	100.5	96.5	109.4	96.8	103.8	95.9
1982Q2	108.3	98.2	99.5	101.8	95.5	102.5	92.7	97.8	101.4	91.4	101.8	95.0	105.7	95.4	104.8	96.0
1982Q3	112.7	98.6	95.7	98.7	90.1	103.5	92.6	99.3	102.0	91.1	103.2	94.7	104.6	93.7	100.2	96.7
1982Q4	113.7	100.5	97.0	97.0	90.5	105.3	91.7	96.9	103.2	90.5	105.3	90.3	105.5	96.8	98.1	83.0
1983Q1	110.9	100.5	106.1	94.5	91.4	107.6	92.2	88.0	104.0	91.5	106.4	81.7	110.0	98.7	97.7	81.1
1983Q2	113.0	100.6	106.9	88.4	87.0	108.4	90.9	92.2	104.0	90.8	104.8	79.3	110.4	97.5	99.2	81.8

Bilateral real effective exchange rates, 1980-1982=100

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1970	116.2	104.4	87.6	96.1	99.1	98.5	117.5	78.9	89.8	120.4	98.1	67.6	79.5	109.8	92.9	103.3
1971	114.1	105.8	84.2	95.9	98.7	101.6	113.9	82.7	89.3	114.3	99.4	70.1	82.3	107.8	94.7	99.7
1972	105.0	108.1	92.3	95.0	100.7	101.0	112.5	81.4	91.7	117.3	102.1	74.2	84.4	108.3	97.5	100.9
1973	91.5	110.7	108.4	104.8	103.2	108.3	109.3	71.1	93.4	118.1	103.7	75.5	92.9	109.8	100.1	102.2
1974	88.9	116.9	110.2	106.4	96.4	109.6	113.9	72.5	90.9	122.9	100.2	77.8	93.2	105.5	96.4	106.4
1975	92.3	111.9	97.4	105.3	106.0	104.1	107.0	76.0	95.7	116.9	102.0	81.5	101.0	106.8	100.9	106.8
1976	94.6	116.1	98.2	107.8	103.4	104.4	102.2	70.4	98.0	116.5	104.8	82.4	105.0	107.6	103.5	109.5
1977	93.9	108.2	103.7	97.7	99.8	105.4	100.7	73.8	101.5	119.0	108.2	85.8	100.1	109.4	104.5	105.9
1978	88.2	100.4	118.7	93.4	100.3	105.7	98.2	76.8	101.6	118.2	106.9	87.7	116.2	114.2	100.0	97.7
1979	88.1	100.5	105.7	91.6	101.0	107.1	100.8	85.1	99.7	114.5	102.3	103.6	109.0	111.8	94.0	99.9
1980	89.5	99.6	103.2	93.1	102.1	103.6	103.5	99.1	100.2	107.5	100.0	102.0	99.0	103.7	96.4	101.1
1981	100.6	100.0	104.6	102.7	100.2	97.4	98.8	102.1	99.1	100.3	97.7	99.0	98.6	99.3	101.1	102.1
1982	109.8	100.4	92.3	104.2	97.7	99.1	97.7	98.8	100.7	92.2	102.3	99.0	102.4	96.9	102.5	96.8
1980Q1	89.5	101.8	95.2	91.6	101.3	106.6	104.7	93.7	100.3	109.8	101.4	105.5	100.4	104.0	95.4	101.1
1980Q2	89.9	98.8	102.1	91.8	101.5	104.9	103.7	97.2	99.8	108.4	99.8	102.4	98.9	103.1	96.4	100.8
1980Q3	87.8	99.5	105.6	93.6	103.3	103.1	103.0	100.7	101.0	107.2	100.3	99.9	98.5	104.7	96.1	101.1
1980Q4	90.6	98.2	109.6	95.2	102.5	99.5	102.6	105.1	99.6	104.9	98.3	100.2	98.1	103.0	97.7	102.2
1981Q1	94.5	98.4	111.2	97.6	100.7	97.6	100.7	108.5	99.4	101.8	97.9	98.3	95.1	98.6	99.6	103.9
1981Q2	101.2	99.4	105.0	101.6	99.4	97.2	98.2	105.0	98.8	100.4	96.0	100.2	95.1	98.7	102.2	104.5
1981Q3	105.0	100.9	101.3	107.5	101.2	96.2	98.6	97.7	98.3	99.4	96.6	99.2	98.3	99.2	101.1	103.6
1981Q4	102.1	101.5	101.0	104.7	99.4	98.5	97.3	96.7	100.0	99.7	100.1	98.5	106.1	100.9	101.7	96.5
1982Q1	105.0	101.1	97.3	104.2	99.6	97.7	98.0	98.8	99.9	94.8	101.2	98.7	105.7	96.6	104.9	98.5
1982Q2	107.5	100.1	93.7	105.3	100.2	99.3	97.1	96.1	100.7	91.7	101.8	99.8	101.9	96.2	105.4	98.7
1982Q3	112.6	99.8	89.0	104.2	95.0	99.5	97.8	100.0	100.9	91.4	102.9	100.2	100.6	95.9	100.6	99.8
1982Q4	114.2	100.7	89.1	102.6	96.0	100.0	98.2	98.4	101.4	90.4	103.6	97.2	101.2	99.1	98.9	89.4
1983Q1	110.2	101.6	96.9	101.4	97.9	100.6	99.7	90.6	102.8	91.8	103.3	91.1	106.3	100.9	99.4	88.8
1983Q2	111.2	102.5	96.3	96.4	95.3	100.0	98.8	95.9	102.4	91.8	100.3	90.8	107.1	100.3	101.0	89.9

Modified bilateral nominal effective exchange rates, 1980-1982=100

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1970	117.2	120.6	69.3	117.0	111.2	64.7	222.2	144.6	78.1	90.4	81.0	144.9	51.8	112.5	92.8	119.1
1971	113.9	123.9	70.4	117.1	108.7	66.7	219.9	144.1	78.2	90.1	81.8	142.9	52.9	111.1	92.0	118.1
1972	105.5	123.9	77.9	115.7	111.0	68.0	216.8	137.5	78.3	92.6	82.7	144.8	53.1	110.5	92.0	118.7
1973	97.2	120.0	82.4	129.6	114.9	75.2	193.5	121.3	82.3	93.9	85.4	146.0	58.0	114.9	95.7	117.1
1974	99.6	123.7	77.1	135.1	107.6	79.4	175.1	117.4	85.8	95.3	89.8	151.7	63.0	114.8	101.2	116.2
1975	99.3	118.6	74.7	122.6	117.8	80.3	166.6	107.1	88.2	96.6	91.9	147.0	70.1	117.3	103.5	120.6
1976	103.4	124.4	78.4	120.3	114.3	85.3	139.0	91.5	90.9	98.9	94.0	136.3	78.1	118.7	105.6	122.6
1977	101.8	114.5	86.7	106.2	108.5	91.8	127.2	86.4	94.9	104.2	98.2	119.1	79.5	116.8	106.5	116.5
1978	91.5	103.3	105.7	98.6	106.9	96.5	118.4	86.1	95.5	106.5	99.9	106.4	96.8	116.1	99.1	104.1
1979	90.1	99.7	97.5	94.5	107.0	100.9	113.8	91.3	97.2	107.4	101.2	115.8	97.7	114.7	97.0	103.9
1980	90.2	99.7	93.5	95.9	107.5	101.3	109.5	100.3	99.9	106.7	101.2	107.9	96.1	105.7	98.6	104.4
1981	99.4	100.1	106.1	103.9	100.1	96.7	98.4	102.0	98.5	101.4	97.0	99.0	98.0	99.1	100.1	103.0
1982	110.4	100.2	100.4	100.2	92.4	102.0	92.1	97.7	101.6	91.9	101.8	93.1	105.9	95.2	101.3	92.5
1980Q1	91.5	100.5	86.2	94.4	108.4	103.1	112.8	96.5	100.2	107.3	102.0	114.2	96.0	107.0	98.2	104.3
1980Q2	90.9	99.8	91.2	95.5	107.9	101.8	110.3	98.6	99.9	107.5	101.1	109.2	95.8	105.8	98.9	104.3
1980Q3	88.3	100.0	94.9	96.2	108.2	101.5	108.8	101.0	100.5	107.4	101.7	105.1	96.6	106.2	98.6	104.4
1980Q4	89.9	98.4	101.7	97.4	105.8	98.5	106.3	105.6	98.8	104.7	99.9	103.2	95.9	103.8	98.7	105.0
1981Q1	92.9	98.5	108.3	99.4	102.9	96.3	102.8	108.5	97.7	102.2	97.3	100.3	93.2	100.3	98.5	105.5
1981Q2	99.3	100.1	106.2	103.1	100.2	95.9	98.4	105.1	97.8	101.2	95.5	100.0	94.3	98.0	100.4	106.7
1981Q3	104.7	100.6	104.6	108.2	99.5	95.4	97.6	97.7	98.1	101.0	95.4	98.7	97.7	98.4	100.3	104.4
1981Q4	101.0	101.3	105.4	105.2	97.6	99.4	94.6	96.1	100.5	101.2	99.6	96.9	107.3	99.9	101.5	95.6
1982Q1	104.7	100.8	103.5	102.8	96.0	99.3	93.5	98.1	100.2	96.0	99.9	95.7	109.0	96.6	103.5	95.7
1982Q2	108.6	98.8	101.0	101.8	94.7	101.8	92.1	97.5	101.3	90.9	101.0	94.1	105.3	95.2	104.4	95.6
1982Q3	113.5	99.6	97.7	98.8	89.2	102.6	91.8	99.0	101.9	90.5	102.3	93.5	104.1	93.3	99.9	96.1
1982Q4	114.7	101.6	99.3	97.1	89.5	104.4	90.9	96.4	103.0	90.0	104.3	89.0	104.9	95.7	97.1	82.3
1983Q1	111.2	101.3	108.6	94.3	90.4	106.6	91.4	87.3	104.1	90.9	105.2	80.4	109.3	97.4	96.5	80.2
1983Q2	113.4	101.5	109.7	88.3	85.9	107.0	89.8	91.4	103.9	90.0	103.5	77.8	109.5	96.2	98.0	80.9

Modified bilateral real effective exchange rates, 1980-1982=100

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1970	117.9	105.7	89.4	96.0	99.2	98.2	116.9	78.5	89.2	119.8	98.5	67.4	79.3	109.1	92.9	102.7
1971	115.9	107.1	85.7	96.0	98.9	101.5	113.6	82.5	89.1	114.0	99.8	70.1	82.2	107.3	94.6	99.4
1972	106.0	106.7	93.1	94.8	101.1	101.3	112.5	81.3	91.6	117.3	102.8	74.3	84.4	108.0	97.5	100.7
1973	91.3	110.0	108.0	104.1	103.9	109.1	109.7	71.2	93.9	118.5	104.6	75.3	93.1	109.7	100.1	102.1
1974	89.0	116.0	109.6	105.7	97.1	110.3	114.1	72.5	91.4	122.9	101.2	77.8	93.4	105.4	96.4	106.0
1975	92.7	111.4	96.7	104.8	107.1	105.5	108.0	76.7	96.4	117.6	103.2	82.2	101.6	107.1	101.3	107.2
1976	95.4	115.9	98.4	107.2	104.2	105.6	102.9	71.0	98.8	117.0	105.8	82.7	105.4	108.0	103.9	109.8
1977	93.9	107.8	103.5	97.1	100.6	106.6	101.2	74.2	102.2	119.5	109.3	86.0	100.5	109.8	104.9	106.3
1978	86.9	99.2	117.3	92.7	101.1	107.1	98.8	77.3	102.6	118.8	108.0	87.9	116.6	114.2	100.0	97.8
1979	87.0	99.4	103.6	91.2	102.2	108.7	101.9	85.8	100.7	115.3	103.6	104.4	109.7	112.0	94.3	100.2
1980	88.7	98.7	101.1	92.9	102.9	104.5	104.3	99.5	100.8	108.1	100.9	102.9	99.6	104.0	96.7	101.5
1981	100.6	100.1	105.1	102.7	99.8	96.9	98.4	101.8	98.8	100.0	97.5	98.7	98.3	99.3	101.1	101.9
1982	110.7	101.3	93.7	104.4	97.2	98.6	97.3	98.7	100.5	91.9	101.7	98.5	102.1	96.7	102.3	96.6
1980Q1	89.0	100.9	93.0	91.4	102.6	108.2	106.1	94.5	101.3	110.7	102.7	106.7	101.3	104.5	95.8	101.6
1980Q2	89.0	97.9	100.0	91.7	102.4	106.0	104.6	97.6	100.4	109.0	100.8	103.3	99.5	103.4	96.6	101.1
1980Q3	86.8	98.5	103.3	93.5	104.1	104.1	103.8	101.0	101.5	107.9	101.2	100.8	99.1	105.1	96.4	101.5
1980Q4	89.6	97.3	108.0	95.1	102.8	99.8	102.9	105.1	99.7	105.1	98.7	100.6	98.3	103.2	97.9	102.3
1981Q1	93.8	97.9	110.6	97.6	100.5	97.2	100.3	108.1	99.1	101.7	97.9	98.2	94.9	98.8	99.7	103.9
1981Q2	101.1	99.5	105.6	101.7	99.0	96.5	97.6	104.6	98.3	100.0	95.8	99.8	94.8	98.8	102.3	104.4
1981Q3	105.4	101.3	102.6	107.6	100.7	95.5	98.1	97.4	97.8	98.9	96.2	98.7	97.9	99.0	101.0	103.3
1981Q4	102.4	101.7	101.9	104.7	99.2	98.2	97.1	96.7	99.9	99.5	99.8	98.1	105.9	100.6	101.5	96.4
1982Q1	105.5	101.6	98.4	104.2	99.2	97.3	97.7	98.8	99.7	94.6	100.7	98.3	105.4	96.5	104.7	98.4
1982Q2	108.2	100.7	94.9	105.4	99.7	98.9	96.9	98.0	100.5	91.5	101.2	99.4	101.7	96.2	105.2	98.7
1982Q3	113.7	100.8	90.7	104.4	94.5	98.9	97.3	99.9	100.7	91.1	102.2	99.5	100.3	95.7	100.5	99.5
1982Q4	115.6	101.8	91.0	102.8	95.3	99.3	97.7	98.2	101.1	90.1	102.8	96.5	100.9	98.4	98.3	89.0
1983Q1	110.9	102.4	98.8	101.3	97.2	100.0	99.2	90.3	102.7	91.4	102.4	90.4	105.8	100.1	98.7	88.2
1983Q2	112.1	103.4	98.2	96.5	94.5	99.2	98.1	95.5	102.2	91.3	99.4	90.0	106.6	99.6	100.3	89.5

Table 8

Shares of industrial-country suppliers in major countries' domestic markets for manufactures

percent; domestic markets are measured as the estimated sum of domestic output and imports in 1980

	Domestic markets				
	United States	*Canada*	*Japan*	*Germany*	*United Kingdom*
Supplier					
United States	86.3	37.2	3.1	2.4	5.3
Canada	3.7	54.7	0.2	0.1	0.7
Japan	4.5	2.6	94.2	1.5	2.1
Germany	1.7	1.3	0.7	77.4	6.5
United Kingdom	0.9	1.6	0.4	1.9	70.5
Other industrial countries[1]	2.9	2.6	1.4	16.7	14.9
Total	100	100	100	100	100

[1] Australia, France, Italy, Austria, Belgium, Netherlands, Spain, Switzerland, Denmark, Norway, Sweden.

import-weighted index for the dollar stood at 110.8, not far below the 111.4 shown on the export-weighted index (columns 6 and 7, Table 5).

It has often been pointed out that bilateral export weights do not describe well the broader aspects of export price competitiveness. Direct weights presume implicitly that in selling to the British domestic market, for example, British firms are the sole rivals of U.S. exporters. Yet, as shown in Table 8, British firms in 1980 commanded only 70% of the U.K. domestic market for manufactures (defined as domestic production plus imports from industrial countries). U.S. exporters took 5% while continental European competitors took over 20%.

Thus, in evaluating U.S. export price competitiveness on the U.K. home market it is important, at least in principle, to assess the position of U.S. firms not just against British firms but also against European competitors. Statistically, this can be approximated by computing the ratio of U.S. prices to a weighted average of British and other competitors' prices, setting the weights in proportion to the relative shares of all industrial-country competitors in the U.K. domestic market (see Table 8).

Given recent price and exchange rate relationships it happens that the resulting modified index of U.S. bilateral competitiveness in the U.K. market differs by only 0.5% from the direct bilateral measure (see column 2 in Table 5). The modification makes considerably greater difference, however, for some smaller U.S. export markets, such as Belgium and Sweden. It is also a not insignificant 2% in the Canadian market.

Besides providing a superior measure of U.S. export competitiveness in industrial-country markets, the modification principle just described can also be used to assess U.S. competitiveness in markets outside the leading industrial countries. The fifteen major industrial-country export markets absorbed only 54% of U.S. manufactures exports in 1980. Other markets, notably in Latin America and the Far East, absorbed 46%. U.S. price competitiveness in such non-OECD markets could be quite different from U.S. competitiveness in industrial-country markets.

However, rough calculations including the principal Latin American and Asian LDC currencies as competitors of the United States and other industrial countries do not greatly affect the dollar's measured real appreciation. The sharp depreciation of the Latin American currencies over the past year, for example, adds only 1½% to the apparent dollar overvaluation at present. Several factors such as distortions introduced by hyperinflation, multiple exchange-rate practices, and defective price data, counsel against inclusion of LDC currencies in the standard measurement of real effective exchange rates of industrial-country currencies.

Nonetheless, even without including LDC currencies or LDC competitors, the competitiveness of U.S. firms vis-à-vis Japanese, German, and other industrial-country exporters competing in LDC markets still can be compared against one another, with the results shown in column 2 of Table 5. Of the non-OECD markets listed there, U.S. competitiveness appears most impaired in Africa, reflecting the severe U.S. competitive deterioration vis-à-vis European exporters, holding most of the African market.

The modified bilateral export weights, spanning both industrial countries and non-OECD export markets (column 9 in Table 5), can be applied to the modified indices of U.S. competitiveness (column 2), to yield a 14% average measure as the dollar's export-oriented real effective exchange rate appreciation over the 1980-82 base period. This may be compared with the 11½% estimated on the direct bilateral approach (column 7). Finally, the modified bilateral *export* measure can be combined with the direct bilateral *import* measure to arrive at an overall estimate of the dollar's real effective appreciation: 12% above the 1980-82 base period as of the second quarter of this year (column 11), about 1% greater than the estimate obtained from the direct bilateral approach (column 8).

Undeniably, this modified bilateral measure is more complex than the direct bilateral calculation and, it must be conceded, the result is not greatly different in present circumstances. Yet the modified procedure addresses important avenues of competition that are neglected by the direct approach. Moreover, for purposes of computation, its complexity can be reduced to applying the weights in column 11 to the direct bilateral indices of U.S. price competitiveness in column 1 (corresponding weights and historical data for the modified effective exchange rates of other leading currencies are shown in Tables 6 and 7).

Comparison of the direct and modified weighting schemes for the U.S. dollar calculation makes clear that their major difference lies in the sharp reduction of Canada's weight in the modified version, the substantial increase in Japan's weight, and a relatively small increase in the weight of European currencies. It is interesting to note that the modified weights for the dollar are not very different in many cases from those derived from the vastly more complex IMF MERM approach. The modest increase in the dollar's real effective exchange rate index arising from the modified scheme is a consequence of the comparatively small loss of U.S. competitiveness versus Japan since the 1980-82 base period. The deviation of the modified results from those of direct bilateral weighting naturally tends to be greatest when the divergence of U.S. bilateral competitiveness against Japan and Canada also is greatest.

In sum, the modification of the bilateral trade-weighted approach discussed in this article remedies the most obvious shortcoming of using direct bilateral trade weights to measure changes in U.S. competitiveness, namely, the neglect of exporter competition in third markets. Since, however, the modification makes little difference to the calculated effective exchange rate indices in practice and adds some complexity in principle, the direct bilateral approach is retained in this publication for the time being.

The bilateral approach is preferable to the misleading and simplistic multilateral procedure, and also avoids the "black box" pitfalls of the IMF calculation. Whether in simple or modified form, the bilateral computations reveal that the dollar's present apparent overvaluation is closer to 12% measured from the 1980-82 reference period, rather than the 17% indicated by some other weighting systems, or 20% plus based on a reference period of the late-1970s. Moreover the 12% estimate characterizes only the competitive impairment of the U.S. manufacturing sector at large. Some industries within that field as well as agriculture and most service activities are certainly better positioned.

Statistical appendix

for key to data in tables
see pages 22 and 23.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers 1980-82=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Pre-June 1970 parities	112.0	113.0	68.8	116.2	112.2	68.2	219.5	144.0	80.3	92.3	81.4	149.6	52.2	113.0	92.9	118.6
Smithsonian central rates	101.0	120.7	77.0	115.7	110.6	71.0	214.6	143.8	80.5	93.5	82.2	149.0	54.2	110.7	91.2	103.5
1980	90.7	100.4	95.6	96.0	106.4	100.1	108.4	99.7	99.5	105.9	100.2	106.6	95.4	105.2	98.1	103.8
1981	99.5	100.1	105.7	103.8	100.4	97.2	98.8	102.3	98.8	101.7	97.1	99.3	98.2	99.2	100.0	103.2
1982	109.8	99.5	98.6	100.2	93.2	102.7	92.8	98.0	101.7	92.4	102.6	94.1	106.4	95.6	101.8	93.0
1982																
June	111.1	96.2	97.6	102.0	93.1	103.0	92.5	98.8	101.6	91.3	102.3	94.7	103.8	94.7	105.1	96.2
July	112.3	96.9	96.9	100.9	90.6	103.3	92.7	99.2	101.8	91.4	102.6	94.4	104.7	94.1	103.9	96.3
August	112.5	99.0	95.7	98.2	90.2	103.5	92.7	99.3	102.0	91.2	103.2	94.7	104.7	93.7	99.5	96.9
September	113.3	100.0	94.6	97.0	89.4	103.7	92.5	99.6	102.2	90.6	103.9	95.0	104.3	93.2	97.4	96.8
October	114.9	100.8	92.4	97.0	89.7	104.4	91.9	100.5	102.7	90.3	104.9	94.5	104.4	95.4	97.5	85.5
November	115.0	101.2	95.6	97.2	90.1	104.8	91.1	97.5	103.0	90.5	105.3	92.4	104.7	96.7	98.5	82.4
December	111.3	99.5	103.0	96.7	91.6	106.7	92.1	92.9	103.8	90.8	105.7	83.9	107.3	98.2	98.2	81.2
1983																
January	109.7	100.2	106.7	97.3	91.8	106.9	92.8	89.4	103.6	91.1	106.3	82.6	111.3	98.9	97.4	81.0
February	111.0	100.5	105.9	96.8	91.8	107.0	92.6	88.2	103.6	91.0	106.2	81.9	110.3	98.6	98.0	81.1
March	112.0	100.9	105.8	89.3	90.7	109.0	91.4	86.4	104.8	92.2	106.5	80.5	108.4	98.8	97.8	81.2
April	112.5	100.4	106.4	87.5	87.7	109.1	91.3	90.2	104.4	91.5	105.1	80.1	109.9	98.7	98.7	81.5
May	112.2	100.6	107.8	88.2	87.0	108.4	90.8	92.9	104.0	90.8	104.8	79.5	110.6	97.4	99.3	81.7
June	114.3	100.8	106.6	89.4	86.4	107.6	90.7	93.6	103.5	90.2	104.6	78.3	110.6	96.3	99.6	82.3
June 10	114.5	100.6	106.0	89.5	86.1	107.3	90.6	95.5	103.4	89.9	104.1	78.9	110.1	96.0	99.9	82.3
17	114.8	100.7	106.1	89.8	86.4	107.6	90.8	92.8	103.6	90.3	104.8	78.6	110.2	96.7	99.9	82.3
24	113.9	100.9	107.2	89.3	86.6	107.9	90.8	92.4	103.5	90.2	105.1	77.8	111.2	96.3	99.0	82.1
July 1	114.1	101.1	106.9	89.3	86.7	107.8	90.9	92.4	103.7	90.2	104.8	77.3	111.0	96.2	99.3	82.3
8	114.7	101.0	106.7	89.4	86.5	107.4	90.7	93.5	103.6	89.8	104.6	76.9	110.6	95.8	99.8	82.5
15	115.1	100.9	106.9	89.4	86.3	107.3	90.6	93.3	103.2	89.8	104.7	76.6	111.5	95.6	99.9	82.6

Real effective exchange rates

Index numbers 1980-82=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.5	99.6	103.2	93.1	102.1	103.6	103.5	99.1	100.2	107.5	100.0	102.0	99.0	103.7	96.4	101.1
1981	100.6	100.0	104.6	102.7	100.2	97.4	98.8	102.1	99.1	100.3	97.7	99.0	98.6	99.3	101.1	102.1
1982	109.8	100.4	92.3	104.2	97.7	99.1	97.7	98.8	100.7	92.2	102.3	99.0	102.4	96.9	102.5	96.8
1982																
June	110.6	97.8	91.3	106.0	98.0	99.5	96.8	99.0	100.6	91.8	102.6	99.8	100.4	96.2	105.1	98.7
July	112.5	97.8	89.9	105.6	95.9	99.5	97.3	99.6	100.9	91.6	102.5	99.6	100.6	95.7	103.8	99.3
August	112.8	99.6	88.9	103.9	94.9	99.5	97.8	99.8	100.8	91.6	102.8	100.0	100.6	96.0	99.6	100.1
September	112.3	102.0	88.1	103.2	94.2	99.5	98.2	100.6	100.8	91.0	103.3	101.0	100.6	95.8	98.4	100.0
October	115.2	101.3	85.1	102.8	95.3	99.6	97.6	101.5	100.9	90.2	103.6	100.6	100.6	98.3	98.3	91.0
November	115.6	101.2	87.8	102.7	95.4	99.6	97.9	98.8	101.0	90.3	103.7	99.3	100.6	98.9	99.2	89.1
December	111.9	99.5	94.3	102.4	97.3	100.7	99.1	95.1	102.2	90.9	103.4	91.7	102.5	100.0	99.2	88.1
1983																
January	109.4	100.8	97.6	103.6	97.1	100.6	100.2	91.9	102.3	91.3	103.7	91.3	107.3	100.8	98.7	88.9
February	110.4	101.3	96.8	103.9	98.7	99.9	100.0	90.8	102.5	91.2	103.1	91.5	106.5	100.9	100.1	88.6
March	110.8	102.8	96.4	96.7	97.8	101.3	98.8	89.2	103.8	92.8	103.1	90.4	105.0	101.1	99.3	88.7
April	110.8	102.3	96.2	95.1	95.6	101.5	98.9	93.5	102.6	92.1	100.9	90.7	106.4	101.1	100.5	89.2
May	110.8	102.2	97.0	96.1	95.1	99.9	98.6	96.5	102.5	92.0	100.2	91.1	107.3	100.6	100.9	90.1
June	112.0	103.0	95.8	98.1	95.2	98.8	98.8	97.6	102.1	91.4	99.7	90.7	107.6	99.3	101.4	90.5

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, and Singapore
billions of dollars (rounded to nearest $5 billion), at end of period

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	
										Sep	Dec
Estimated size											
Gross	315	395	485	595	740	950	1 235	1 525	1 860	2 015	2 055
Liabilities to nonbanks	55	80	90	115	145	190	260	345	440	475	485
Liabilities to central banks	40	60	65	80	100	115	145	150	130	105	90
Liabilities to other banks[a]	220	255	330	400	495	645	830	1 030	1 290	1 435	1 480
Net	160	220	255	320	390	495	590	730	890	940	960
Claims on nonbanks	70	105	130	165	210	265	330	425	530	575	595
Claims on central banks and on banks outside market area[b]	70	95	105	130	150	185	200	230	275	275	270
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	20	25	30	45	60	75	85	90	95
Eurodollars as % of gross liabilities in all Eurocurrencies	74	76	78	80	76	74	72	75	78	81	79

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1979	1980	1981	1982		1983					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Eurodollar:											
overnight	14.00	19.25	12.87	8.88	9.25	8.63	8.63	9.13	8.75	8.88	9.50
7-day fixed	14.00	19.75	13.00	9.00	9.25	8.75	8.63	9.25	8.75	8.88	9.50
one month	14.37	19.12	13.31	9.38	9.13	9.00	8.56	9.44	8.94	9.13	9.50
three months	14.44	17.55	13.75	9.88	9.19	9.25	8.75	9.63	8.88	9.44	9.69
six months	14.44	16.37	14.81	10.13	9.50	9.56	8.88	9.75	9.06	9.63	9.94
twelve months	12.87	14.87	14.75	10.38	9.63	9.75	9.13	9.94	9.25	9.81	10.06
Euromark:											
one month	8.50	8.87	10.44	7.19	5.88	5.63	5.38	4.81	4.88	4.94	4.94
three months	8.56	8.87	10.50	7.06	5.88	5.63	5.25	4.94	5.00	5.06	5.19
six months	8.56	8.87	10.56	7.06	5.94	5.69	5.38	5.13	5.06	5.25	5.50
twelve months	8.12	8.93	10.25	7.00	6.00	5.88	5.50	5.38	5.31	5.69	5.94
Euro-Swiss franc:											
one month	5.19	6.00	8.87	3.94	2.81	2.38	2.88	3.81	4.31	4.75	4.56
three months	5.75	6.00	9.25	4.06	3.25	2.75	3.00	3.88	4.38	4.75	4.63
six months	5.87	5.75	9.25	4.06	3.44	3.38	3.38	3.88	4.38	4.75	4.75
twelve months	5.56	5.50	8.50	4.19	3.44	3.56	3.63	3.94	4.38	4.63	4.69
Eurosterling:											
one month	16.75	14.75	15.37	10.44	10.56	11.50	11.38	10.75	10.25	10.25	9.63
three months	16.75	14.75	15.69	10.44	10.44	11.50	11.25	10.69	10.19	10.25	9.63
six months	16.75	14.25	15.69	10.38	10.31	11.44	13.19	10.63	10.06	10.25	9.88
twelve months	15.25	14.00	15.37	10.31	10.31	11.25	10.75	10.56	10.00	10.31	10.06
Euro-French franc:											
one month	13.87	11.12	15.75	19.50	23.00	16.00	21.50	12.13	12.38	12.50	12.38
three months	14.00	11.75	17.00	19.75	24.00	20.00	23.00	12.31	12.88	13.38	14.95
six months	14.12	12.25	18.00	20.38	22.00	20.00	21.25	13.75	14.38	15.75	16.69
twelve months	13.75	12.87	18.25	20.00	19.75	18.00	18.38	15.00	16.00	17.25	18.00
Euroyen:											
one month	7.32	9.12	6.12	7.31	6.75	6.56	6.69	6.38	6.13	6.31	6.44
three months	8.31	9.25	6.12	7.25	6.75	6.56	6.63	6.38	6.19	6.31	6.50
six months	8.62	9.62	6.87	7.19	6.81	6.50	6.50	6.38	6.19	6.31	6.50
twelve months	7.94	9.37	6.87	7.19	6.81	6.63	6.56	6.44	6.38	6.38	6.50

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	1981	1982[r]	1983			Jan-Jun	
				Apr[r]	May[r]	Jun[r]	1983	1982
Industrial countries	**39 100**	**86 022**	**42 775**	**2 714**	**2 244**	**1 497**	**16 967**	**21 071**
Australia	2 475	1 680	4 721	362	204	—	1 301	3 002
Canada	1 743	4 112	3 838	—	—	—	—	2 260
Denmark	1 720	1 661	789	—	208	78	1 586	770
France	1 745	3 912	5 653	—	—	155	745	1 192
Greece	1 333	1 039	770	26	—	5	551	550
Ireland	237	1 361	401	500	—	—	541	354
Italy	6 268	6 030	3 657	—	326	254	1 464	2 021
Norway	685	713	2 069	82	—	50	336	265
Portugal	745	1 590	1 388	300	—	—	300	936
Spain	5 457	3 242	1 849	114	725	143	1 907	834
Sweden	1 370	1 867	649	110	180	—	2 350	425
United Kingdom	1 470	747	1 635	—	37	182	530	543
United States	6 719	54 784	6 566	1 030	340	100	2 684	3 099
Other[a]	7 133	3 284	8 790	190	124	530	2 672	4 820
Developing countries	**35 054**	**45 264**	**41 424**	**1 588**	**2 917**	**3 398**	**23 468**	**25 653**
Non-OPEC countries	24 009	33 394	28 704	885	2 917	1 094	18 021	19 390
Argentina	2 506	2 534	1 565	—	—	250	250	465
Brazil	4 158	5 751	5 716	—	—	—	4 475	2 956
Chile	1 322	2 204	1 194	—	1 300	—	1 300	450
Colombia	608	1 030	741	100	—	—	100	493
Korea	1 917	2 824	2 923	—	392	39	1 381	1 579
Malaysia	—	1 725	1 909	50	250	15	875	1 797
Mexico	5 971	7 530	7 953	—	—	—	5 100	7 297
Peru	480	1 407	1 069	—	450	—	466	839
Philippines	1 056	1 257	635	—	100	—	685	341
Taiwan	314	928	255	100	—	—	346	—
Other	5 677	6 204	4 744	635	425	790	3 043	3 173
OPEC countries	11 045	11 870	12 720	703	—	2 304	5 447	6 263
Ecuador	1 209	934	815	—	—	—	—	615
Indonesia	1 435	725	1 250	—	—	—	1 146	368
Nigeria	1 330	1 802	2 042	—	—	1 600	1 633	467
United Arab Emirates	101	363	93	—	—	500	1 190	53
Venezuela	6 715	7 559	6 799	—	—	—	237	3 944
Other	255	497	1 721	703	—	204	1 241	816
Communist countries	**2 809**	**1 791**	**765**	**15**	—	**465**	**698**	**374**
China	181	370	43	—	—	—	—	—
East Germany	303	470	8	—	—	392	392	—
Hungary	550	550	340	15	—	5	238	—
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	—	—	68	68	374
International organizations[c]	**429**	**302**	**150**	—	—	**1 300**	**1 321**	**150**
TOTAL	**77 392**	**133 379**	**85 114**	**4 317**	**5 161**	**6 660**	**42 454**	**47 248**

a includes multinational organizations *b* includes COMECON institutions *c* includes regional development organizations *p* preliminary
r revised

International bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982			1983				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
U.S. companies:											
U.S. dollar	10.13	11.76	12.70	11.63	11.32	11.28	10.46	10.24	10.09	9.90	n.a.
Swiss franc	6.61	7.27	7.30	5.74	5.74	5.76	5.63	5.72	5.66	5.71	5.88
European companies:											
U.S. dollar	10.93	12.42	14.29	12.81	12.37	12.45	11.60	11.37	11.37	11.17	n.a.
German mark	7.55	8.79	9.36	8.23	8.31	8.17	8.15	7.98	7.49	7.16	n.a.
Governments:											
U.S. dollar	10.66	11.83	13.59	12.62	12.00	12.51	12.07	11.25	11.17	11.09	n.a.

*New international bond issues**

new issues in period, in millions of dollars

	1980	*1981*	*1982r*	*1983*			*Jan-Junr*	
				Apr	*Mayr*	*Junr*	*1983*	*1982*
By type:								
Eurobonds, total	**23 970**	**31 616**	**50 365**	**5 082**	**3 833**	**4 551**	**26 917**	**30 114**
by category of borrower								
U.S. companies	4 107	6 178	12 596	575	585	491	3 150	8 368
Foreign companies	9 032	12 882	13 231	2 330	1 570	1 257	9 425	7 075
State enterprises	5 839	7 496	13 538	1 282	1 418	523	7 443	8 478
Governments	3 045	2 629	7 624	368	260	130	3 353	4 558
International organizations	1 947	2 431	3 376	527	—	2 150	3 546	1 635
by currency of denomination								
U.S. dollar	16 427	26 830	42 930	4 096	3 227	3 865	21 913	26 137
German mark	3 607	1 277	2 487	570	356	450	2 687	1 163
Dutch guilder	1 043	529	645	27	—	—	325	367
Canadian dollar	279	634	1 181	122	49	61	497	970
European composite units	65	309	1 827	37	83	81	865	751
Other	2 549	2 037	1 295	230	118	94	630	726
Foreign bonds outside the United States, total	**14 521**	**13 817**	**19 879**	**2 568**	**1 569**	**1 728**	**13 502**	**11 384**
by category of borrower								
U.S. companies	307	592	1 971	267	—	20	588	1 290
Foreign companies	3 157	3 384	4 184	861	497	652	5 076	2 198
State enterprises	2 830	3 701	5 429	351	592	299	2 564	2 996
Governments	4 086	2 762	3 494	231	170	277	1 952	2 348
International organizations	4 141	3 378	4 801	858	310	480	3 322	2 552
by currency of denomination								
German mark	4 839	1 310	2 745	357	162	294	1 877	1 614
Swiss franc	7 617	8 285	11 129	1 639	920	1 004	8 443	6 572
Dutch guilder	259	481	957	100	119	123	715	428
Japanese yen	1 088	2 457	3 418	336	276	235	1 969	1 926
Other	718	1 284	1 630	135	92	72	497	844
Foreign bonds in the Unites States, total	**3 429**	**7 552**	**5 946**	**400**	**725**	**200**	**2 748**	**2 380**
by category of borrower								
Canadian entities	2 136	4 630	3 180	300	200	—	1 193	1 694
International organizations	550	1 375	1 700	100	400	—	900	500
Other	743	1 547	1 066	—	125	200	655	186
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**61 518**	**6 419**	**5 207**	**3 608**	**34 493**	**35 702**
Australia	539	991	2 167	100	70	256	867	920
Austria	1 859	1 557	1 668	90	184	125	889	1 230
Canada	3 797	10 648	11 759	922	739	67	4 007	7 113
Denmark	1 125	695	1 019	81	165	86	961	797
Finland	392	672	815	172	82	100	560	386
France	2 820	3 156	7 402	1 121	742	226	5 113	4 230
Italy	904	1 108	2 263	—	101	54	388	1 376
Japan	5 309	6 928	8 213	1 855	1 247	1 046	8 441	4 247
Netherlands	1 585	630	865	98	11	209	523	347
New Zealand	293	1 107	1 375	46	—	—	448	738
Norway	892	530	832	50	—	19	269	299
Sweden	3 244	2 050	2 729	85	—	202	2 283	1 483
United Kingdom	1 733	1 408	1 281	125	332	—	633	312
United States	5 587	6 770	14 567	842	585	511	3 738	9 658
Developing countries	**2 485**	**4 769**	**4 930**	**121**	**210**	**241**	**841**	**3 324**
Non-OPEC countries	1 942	4 338	3 890	120	210	224	787	2 616
Brazil	349	60	91	—	—	—	—	73
Korea	68	323	172	40	93	131	375	92
Mexico	544	3 012	1 919	—	—	—	—	1 594
OPEC countries	543	431	1 040	—	—	17	54	708
Venezuela	398	291	385	—	—	—	—	285
Communist countries	**65**	**75**	**65**	**25**	—	—	**25**	**65**
International organizations	**6 638**	**7 163**	**9 677**	**1 485**	**710**	**2 630**	**7 768**	**4 687**
TOTAL	**41 920**	**52 985**	**76 190**	**8 050**	**6 127**	**6 479**	**43 127**	**43 778**

*Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.

Central bank discount rates

	1979	1980	1981	1982			1983	Current	
	end Dec	end Dec	end Dec	end Jun	end Sep	end Dec	end Mar	Jul 22 1983	effective since
United States	12.00	13.00	12.00	12.00	10.00	8.50	8.50	8.50	Dec 15, 82
Canada	14.00	17.36	14.66	16.58	12.98	10.26	9.51	9.42	Jun 29, 83
Japan	6.25	7.25	5.50	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	17.00	14.00	14.37	12.50	10.00	10.00	10.56	9.50	Jun 14, 83
Belgium	10.50	12.00	15.00	14.00	12.50	11.50	11.00	9.00	Jun 23, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	6.00	7.50	7.50	7.50	7.00	5.00	4.00	4.00	Mar 16, 83
Italy	15.00	16.50	19.00	19.00	18.00	18.00	18.00	17.00	Apr 11, 83
Netherlands	9.50	8.00	9.00	8.00	7.00	5.00	3.50	4.50	May 3, 83
Austria	3.75	6.75	6.75	6.75	6.25	4.75	3.75	3.75	Mar 16, 83
Denmark	11.00	11.00	11.00	11.00	11.00	10.00	8.50	7.50	Apr 21, 83
Finland	8.50	9.25	9.25	8.50	8.50	8.50	8.50	9.50	July 1, 83
Ireland	16.40	12.75	17.15	18.30	14.55	14.35	14.35	13.00	July 1, 83
Norway	9.00	9.00	9.00	9.00	9.00	9.00	9.00	8.00	Jun 6, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.00	12.00	11.00	10.00	10.00	10.00	9.00	8.50	Apr 8, 83
Switzerland	2.00	3.00	6.00	5.50	5.00	4.50	4.00	4.00	Mar 16, 83
Argentina	89.90	87.01	98.50	87.23	128.54	128.54	128.54	128.54	Sep 30, 82
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	7.00	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	11.00	13.00	14.00	14.00	14.00	13.00	13.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1979	1980	1981	1982		1983					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	13.78	18.90	12.37	9.20	8.95	8.68	8.51	8.77	8.80	8.63	9.50
Canada	13.83	15.61	14.53	10.91	10.63	9.75	9.60	9.40	9.41	9.28	9.45
Japan	8.02	9.49	6.70	6.68	6.92	6.64	6.57	6.69	6.30	6.08	n.a.
Australia	7.84	9.51	12.84	12.52	11.04	9.84	10.70	10.61	11.15	11.16	10.87
United Kingdom	14.87	13.00	9.13	8.33	6.70	10.81	10.81	7.50	7.63	n.a.	n.a.
Belgium	10.65	9.68	12.78	10.51	9.43	9.80	9.97	11.82	9.83	7.45	7.68
France	12.17	10.87	15.46	13.18	12.88	12.71	12.77	12.84	12.55	12.46	n.a.
Germany	9.15	9.13	10.65	7.02	6.07	5.91	5.70	5.49	4.93	5.00	5.05
Italy	16.00	17.50	20.63	18.86	19.00	19.00	19.00	19.00	18.00	18.00	17.80
Netherlands	15.67	8.37	10.67	6.13	5.31	5.10	4.96	4.41	5.18	5.22	n.a.
Austria	8.50	11.50	7.50	6.38	6.00	5.88	5.88	5.38	4.88	4.38	4.50
Finland	13.53	12.50	11.30	11.50	11.50	11.00	12.00	13.00	13.00	15.00	15.00
Ireland	16.88	13.31	16.88	15.50	14.54	15.38	13.94	17.63	15.25	14.38	13.62
Spain	9.61	16.74	18.73	23.18	20.30	16.60	17.20	17.68	20.38	21.01	20.10
Sweden	11.99	11.41	13.82	12.51	8.63	4.62	10.55	11.20	11.00	11.00	n.a.
Switzerland	1.25	5.75	3.38	1.38	1.25	1.38	1.50	3.13	3.88	3.88	3.00
Argentina	78.22	70.84	84.93	132.70	155.32	154.38	159.38	180.22	196.18	162.81	170.43
Brazil	37.51	62.71	103.74	136.85	150.42	119.23	125.22	164.70	266.06	220.06	n.a.
Hong Kong	14.19	14.05	10.75	11.13	9.13	7.13	10.40	9.63	10.40	11.38	12.38
Korea	15.00	14.82	14.40	13.75	13.84	13.25	13.30	13.70	13.60	13.40	13.40
Philippines	16.25	15.70	14.70	10.90	16.12	11.43	14.29	14.58	10.93	13.57	n.a.
Singapore	10.17	10.23	3.96	5.34	11.45	8.22	5.88	6.04	9.96	6.63	5.96
South Africa	3.81	5.60	12.34	13.50	12.90	9.70	9.57	8.25	9.71	9.73	n.a.
Eurodollars	14.41	19.22	12.29	9.40	9.15	8.72	8.73	8.86	8.90	8.94	10.50

Treasury bill rates

bond-equivalent yields, at or near end of month

	1979	1980	1981	1982		1983					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	12.39	14.87	11.90	8.10	8.15	8.23	8.03	8.93	8.34	8.75	n.a.
Canada	13.66	17.01	14.41	10.72	9.80	9.58	9.23	9.17	9.12	9.25	9.17
Japan	5.68	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	n.a.
Australia	9.31	12.17	13.27	12.98	9.39	11.05	14.95	14.11	11.14	11.83	11.93
United Kingdom	16.45	13.45	15.31	8.94	9.90	10.58	10.73	10.41	9.75	9.68	9.29
Belgium	14.40	12.75	16.00	12.25	12.25	12.25	12.25	12.00	10.35	10.00	9.50
Ireland	16.37	12.84	17.35	12.87	14.70	15.38	13.76	14.39	13.81	14.01	12.95
Italy	15.62	16.87	21.36	19.09	19.11	19.09	19.09	18.88	18.27	n.a.	n.a.
Netherlands	12.75	8.00	9.75	5.88	5.63	5.38	5.00	4.50	6.50	5.63	n.a.
Spain	15.00	17.20	15.83	17.38	16.96	17.06	16.99	16.56	18.11	21.67	2[illegible].52
Sweden	9.74	12.87	9.20	9.20	8.18	7.14	7.14	7.13	7.13	7.13	n.a.
Argentina	71.04	66.19	77.10	133.36	133.36	110.39	159.38	n.a.	n.a.	n.a.	n.a.
Korea	19.53	16.35	16.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Mexico	17.89	27.73	33.22	51.26	57.44	59.56	60.90	64.24	n.a.	n.a.	n.a.
New Zealand	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	12.00	12.00	12.00
Philippines	12.63	12.74	13.40	14.48	14.53	14.54	14.54	14.55	14.54	14.49	n.a.
Singapore	6.18	6.77	3.03	3.07	2.74	3.05	3.07	2.59	2.59	2.51	2.61
South Africa	4.30	6.31	14.55	15.12	14.62	12.70	9.79	11.35	11.53	11.81	n.a.

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1979	1980	1981	1982		1983					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	13.70	17.62	12.78	8.68	8.81	8.29	8.30	9.34	8.56	8.63	n.a.
Canada	14.15	17.50	15.25	11.00	9.95	10.00	9.40	9.45	9.45	9.50	n.a.
Japan	8.01	9.80	6.30	7.06	6.80	6.51	6.69	6.57	6.20	6.36	6.47
Australia	10.30	13.00	16.00	13.80	10.65	11.30	16.00	16.25	12.90	13.00	13.85
United Kingdom	17.00	14.75	15.69	10.38	10.50	11.56	11.31	10.69	10.19	10.25	n.a.
Belgium	14.45	13.10	16.00	12.50	12.35	12.35	12.25	12.25	10.45	10.00	9.50
France	12.62	11.56	15.25	12.94	12.75	12.63	12.94	12.70	12.31	12.44	n.a.
Germany	8.70	10.20	10.50	7.25	6.20	5.90	5.68	5.30	5.18	5.25	n.a.
Ireland	18.12	13.63	18.50	13.63	15.75	16.13	13.94	15.25	15.25	14.75	13.63
Italy	17.12	17.37	21.00	18.80	19.00	18.88	19.00	19.00	17.75	17.75	17.50
Netherlands	13.00	9.37	11.00	6.75	5.25	5.00	4.50	4.25	6.00	6.13	n.a.
Spain	13.20	17.40	15.52	19.27	16.55	16.53	16.82	15.86	18.91	21.57	20.76
Switzerland	6.12	7.50	10.12	4.25	3.88	2.88	3.25	4.00	4.50	4.75	4.81
Hong Kong	14.37	17.69	14.18	11.25	10.13	8.75	8.50	9.50	10.06	11.50	12.88
Korea	19.53	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	16.00	14.25	16.05	17.25	16.75	16.25	14.00	14.00	14.00	16.00	16.75
Philippines	10.41	15.01	17.61	16.00	15.91	15.53	15.90	15.78	14.34	15.57	n.a.
Singapore	10.12	14.12	7.81	7.31	8.69	7.94	7.06	6.56	7.38	7.56	7.81
South Africa	4.72	7.12	15.47	15.75	15.26	13.33	10.41	12.11	12.16	12.21	n.a.

Commercial bank deposit rates

at or near end of month

	1979	1980	1981	1982		1983					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	13.55	16.25	12.62	8.70	8.25	8.50	8.35	9.15	8.40	8.88	9.40
Canada	14.05	17.00	15.20	10.95	9.85	9.90	9.35	9.40	9.35	9.40	n.a.
Japan	8.37	9.00	6.50	7.15	7.00	6.80	6.86	6.98	6.40	6.60	6.67
Australia	10.25	12.71	15.65	14.56	10.20	10.80	15.07	15.48	12.82	12.68	14.84
United Kingdom	16.81	14.87	15.69	10.44	10.31	11.63	11.25	10.75	10.19	10.25	n.a.
Belgium	14.50	12.63	15.50	12.25	12.25	12.25	12.25	12.88	10.38	10.13	9.25
France	12.50	11.25	9.16	8.19	8.24	8.24	8.24	8.24	8.24	8.24	n.a.
Germany	7.75	8.00	9.50	6.50	6.00	5.25	5.10	4.75	4.75	4.85	n.a.
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	13.50	9.50	11.00	6.75	5.38	5.00	4.50	4.25	4.25	4.25	n.a.
Austria	8.50	11.25	9.63	7.13	6.25	6.00	6.00	5.50	5.25	4.69	5.00
Denmark	10.00	10.00	10.00	9.00	9.00	9.00	9.00	7.50	6.50	6.50	6.50
Finland	4.25	5.00	5.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	n.a.
Ireland	17.87	13.63	18.38	13.50	15.25	16.00	13.75	15.13	14.75	14.50	13.25
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	4.50	11.78	13.03	12.53	12.23	12.42	11.98	n.a.	n.a.	n.a.
Sweden	8.75	9.75	10.25	9.50	9.50	8.50	8.50	8.50	8.00	8.00	n.a.
Switzerland	4.75	7.50	8.75	3.00	3.00	2.00	2.00	2.75	3.50	3.75	4.25
Argentina	72.64	72.00	86.76	103.42	103.42	127.75	121.66	121.66	121.66	121.66	108.28
Brazil	55.55	96.49	110.05	122.51	118.26	116.21	117.61	119.29	128.81	137.28	n.a.
Hong Kong	9.25	13.00	12.50	8.50	7.50	7.50	7.50	7.50	8.50	11.00	10.50
Korea	15.00	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	16.75	26.15	31.81	45.50	52.54	59.66	59.90	60.27	n.a.	n.a.	n.a.
New Zealand	15.90	13.50	15.50	16.50	16.50	15.25	13.00	12.75	12.75	14.75	16.50
Philippines	10.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	10.31	13.19	7.50	7.00	8.25	7.31	6.75	6.19	6.88	7.07	7.01
South Africa	4.82	7.87	14.75	15.18	15.25	13.43	10.63	12.00	12.25	12.35	n.a.
Venezuela	15.00	16.00	14.75	15.00	15.50	16.00	16.50	16.00	16.00	15.00	14.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1979	1980	1981	1982		1983					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	15.25	21.50	15.75	11.50	11.50	11.00	10.50	10.50	10.50	10.50	10.50
Canada	15.00	18.25	16.50	13.00	12.50	12.00	11.50	11.50	11.00	11.00	11.00
Japan	6.51	8.16	6.95	6.29	6.28	6.28	6.27	6.27	6.30	6.30	6.30
Australia	10.75	13.50	15.75	16.50	15.00	14.00	14.00	16.00	15.75	15.00	16.00
United Kingdom	18.00	15.00	14.50	10.00	10.00	11.00	11.00	10.50	10.00	10.00	9.50
Belgium	15.25	15.75	18.00	15.50	15.50	15.50	15.50	15.00	14.00	14.00	13.25
France	12.50	12.25	14.00	12.75	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	9.75	11.50	13.00	10.00	8.75	8.75	8.75	7.75	7.75	7.75	7.75
Italy	19.50	20.50	22.50	20.75	20.75	20.75	20.00	20.00	19.50	18.75	18.75
Netherlands	15.00	10.75	12.00	7.25	6.25	6.25	6.00	5.00	5.75	6.25	n.a.
Austria	8.50	12.50	13.50	11.75	11.75	11.00	11.00	11.00	9.75	9.75	9.25
Denmark	13.75	13.75	15.00	14.00	14.00	14.00	14.00	12.00	11.00	11.00	10.50
Finland	9.06	9.83	9.84	8.95	8.95	8.99	8.97	8.95	8.97	9.00	n.a.
Ireland	16.00	14.50	17.25	16.50	16.50	16.50	16.50	17.50	16.25	16.25	15.00
Norway	11.00	12.50	13.75	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50
Spain	9.00	18.50	17.04	20.39	19.00	18.34	18.48	17.65	19.27	22.40	22.73
Sweden	10.75	11.75	13.50	12.50	12.50	11.50	11.50	11.50	11.00	11.00	n.a.
Switzerland	5.00	5.75	8.00	6.50	6.00	6.00	6.00	5.50	5.50	5.50	5.50
Argentina	80.00	77.00	92.60	109.50	109.50	139.92	133.83	133.83	175.00	170.00	184.00
Brazil	59.60	96.45	138.09	162.30	166.49	162.56	181.18	190.83	n.a.	n.a.	n.a.
Hong Kong	14.50	17.00	16.00	11.00	10.50	10.50	10.50	10.50	11.50	11.50	13.50
Korea	18.50	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	19.00	24.25	31.81	45.51	46.12	50.29	52.12	54.24	54.16	n.a.	n.a.
New Zealand	11.75	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	16.00	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	9.50	13.60	11.83	9.33	9.33	9.53	9.25	9.10	9.03	9.03	8.88
South Africa	9.50	9.50	17.00	18.00	18.00	17.00	16.00	14.00	14.00	14.00	n.a.
Venezuela	13.00	15.00	15.50	16.50	17.00	17.50	18.00	17.50	17.50	17.00	17.00

Domestic government bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982		1983					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	10.20	11.46	14.33	10.74	10.61	10.98	10.57	10.85	10.52	10.91	n.a.
Canada	11.32	12.69	15.27	12.18	11.69	12.28	11.80	11.70	11.18	11.30	11.56
Japan	8.63	9.04	8.32	8.32	7.76	7.89	8.07	7.80	7.77	7.80	n.a.
Australia	10.08	13.00	15.00	14.40	13.00	12.75	14.75	15.00	13.85	14.80	15.10
United Kingdom	13.83	13.05	15.02	10.95	10.62	11.56	10.88	10.52	10.28	10.05	n.a.
Belgium	11.13	13.04	13.99	12.87	12.66	12.48	12.60	12.49	11.59	11.63	11.53
France	12.59	14.31	16.44	15.79	15.40	14.99	14.25	14.65	14.55	14.55	n.a.
Germany	7.91	9.19	9.71	8.19	7.90	7.93	7.71	7.61	7.74	8.09	n.a.
Italy	14.00	16.23	21.39	19.90	19.62	19.33	19.24	18.76	18.21	n.a.	n.a.
Netherlands	9.29	10.48	11.28	8.92	8.16	8.24	8.06	8.19	8.83	9.30	n.a.
Austria	8.20	9.62	10.37	8.99	8.81	8.32	8.24	8.18	8.09	n.a.	n.a.
Denmark	18.28	19.98	20.91	20.81	20.14	18.55	15.89	15.16	14.27	14.34	15.54
Finland	9.58	10.42	10.98	10.68	10.64	10.58	10.70	10.59	10.58	10.69	10.55
Ireland	16.64	15.63	18.28	15.53	14.54	14.98	14.26	13.96	13.62	13.51	13.61
Norway	10.04	10.44	12.37	13.32	13.32	12.75	13.00	13.00	12.75	12.75	12.50
Spain	15.11	16.15	16.20	16.75	15.92	15.81	15.99	16.47	17.05	n.a.	n.a.
Sweden	11.22	12.61	12.80	13.09	13.01	13.10	12.83	12.59	12.22	12.14	n.a.
Switzerland	4.20	4.63	5.40	4.27	4.22	4.22	4.23	4.46	4.42	4.51	n.a.
Argentina	47.94	36.84	107.98	135.02	159.88	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Zealand	12.98	12.99	12.55	12.96	12.84	12.77	12.95	n.a.	n.a.	n.a.	n.a.
Philippines	13.20	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	9.32	11.81	13.62	11.80	11.31	10.58	11.40	12.17	12.26	12.85	n.a.
Venezuela	7.29	7.39	12.50	14.00	15.00	15.00	15.00	15.50	15.75	15.75	15.75

Domestic corporate bond yields

long-term issues, at or near end of month

	1979	1980	1981	1982		1983					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	10.75	13.00	15.50	11.75	11.75	11.88	11.53	11.63	11.00	11.75	n.a.
Canada	12.07	13.62	16.48	13.58	13.05	13.54	12.99	12.92	12.29	12.59	12.47
Japan	8.34	8.60	7.70	8.10	7.55	7.25	7.26	7.39	7.37	7.16	7.30
Australia	11.65	14.25	16.50	16.75	15.00	15.00	16.00	16.25	16.00	16.00	16.00
United Kingdom	14.96	14.21	16.55	12.34	12.34	12.85	12.69	12.34	12.14	12.12	n.a.
France	12.92	15.23	17.33	16.33	15.91	15.64	15.12	15.03	14.87	14.85	n.a.
Germany	8.20	9.50	10.50	8.50	8.20	7.90	7.70	7.60	7.30	7.40	7.90
Netherlands	9.95	10.71	11.03	8.49	7.80	8.01	7.92	7.86	8.65	8.91	n.a.
Norway	10.53	11.24	13.36	11.69	14.13	13.75	13.75	13.75	13.50	13.50	13.25
Spain	14.20	14.82	14.76	17.33	17.10	16.49	16.72	17.02	17.22	16.77	n.a.
Sweden	10.21	11.95	12.94	13.33	13.37	13.39	13.06	13.34	12.85	12.89	n.a.
Switzerland	5.53	5.63	6.60	5.89	5.92	5.89	5.88	5.93	5.98	5.94	n.a.
Korea	27.80	28.20	27.00	15.90	15.90	15.10	15.00	14.40	14.00	13.90	13.90
Venezuela	14.55	16.15	17.00	18.00	18.00	18.00	18.00	18.00	18.25	18.00	18.00

Key to data in tables

I. International markets

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

Categories of borrower

U.S. companies include both parent companies and their financing affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Country of borrower

The country of the borrower is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

International bond yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield.

The yield indices are simple arithmetic averages of end-of-month secondary market yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers. Occasionally the individual issues in each category are changed.

The number of issues represented in each of the indices is as follows:

Long-Term, U.S. companies, U.S. dollar — —ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc — four foreign bond issues.

Long-term, European companies, U.S. dollar — ten Euro-bond issues.

Long-term, European companies, German mark — ten Euro-bond issues.

Long-term, governments, U.S. dollar — six Euro-bond issues (governments of Italy, Denmark, and France).

Euro-currency deposit rates

All data are prime banks' bid rates for deposits in London. Offer rates commonly used as a basis for Euro-dollar lending are generally .125% above bid rates.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — Interbank call money.

Brazil — overnight financing of Treasury bills (LTN) until November 1978. New series as of December 1979, rates paid for federal funds.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Euro-dollars — prime banks' bid rate for overnight money.

Treasury bill rates

Argentina — 28-day Treasury bills.

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit.

Sweden — new issues of 3-month Treasury bills.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month negotiable certificates of deposit of investment banks net of taxes.

Canada — 3-month time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Key to data in tables — continued

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 3-month time deposits until April 1979. New series as of May 1979, 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month time deposits. Higher rates may be negotiated for 12-month or more time deposits in large amounts.

Philippines — 3-month time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — deposits at 6-months' notice.

Switzerland — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for large amounts until December 1978. New series as of January 1979, similar rate for domestic depositors only.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — weighted average investment bank lending rate for multinational companies including tax on financial obligations (IOF).

Canada — prime rate.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .333% prior to July 1978, .25% thereafter, per quarter on the total line of credit.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — maximum legal rate for discounting commercial bills plus a commission of 1% per annum until December 1979. New series as of January 1980, preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — actual interest rate on 3-month loans to prime industrial borrowers.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

United Kingdom — clearing bank base lending rate.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for prime borrowers until December 1978. New series as of January 1979, similar rate for domestic prime borrowers only.

Domestic government bond yields

Argentina — 7% National Adjustable Bond, third series maturing in 1985, inflation adjusted by the Official Correction Index.

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 10% government bond maturing 1983 until December 1977; 10% government bonds maturing 1986 until September 1980. New series as of October 1980, 12% serial bonds maturing 2001.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

South Africa — 25-year government bonds.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Domestic corporate bond yields

Australia — long-term secured debentures, indicated by Australian United Corporation.

Canada — McLeod, Young, Weir Co. Ltd., average yield on ten industrial bonds.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — FAZ 6% industrial bond average until September 1978. New series as of October 1978, Bundesbank average yield on industrial bonds

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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World Financial Markets

Morgan Guaranty Trust Company of New York

September 1983

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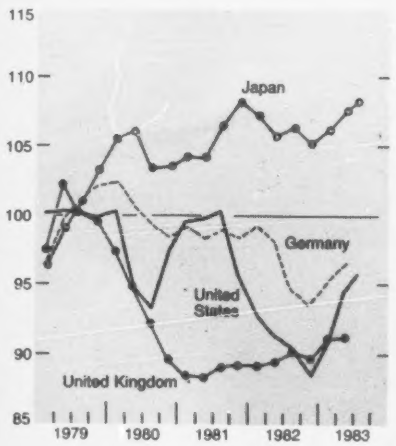
Chart 1

Industrial production index, 1979 = 100



International debt: progress report and the task ahead

Serious LDC debt-servicing problems surfaced a little over a year ago. The essential elements of their eventual resolution were perceived fairly quickly. Five principal needs were identified, involving a judicious blend of adjustment and financing. The first was lower interest rates to allow economic recovery in industrial countries and expand markets for LDC exports. Second was a decline in world oil prices to promote OECD recovery and ease payments burdens on oil-importing LDCs—but not so precipitous a drop as to aggravate the problems of oil-exporting LDCs. Third was economic adjustment by LDCs to reduce borrowing needs, to bolster the confidence of lenders, and to lay the groundwork for renewed growth and development. Fourth, banks would have to restructure part of their existing credits to LDCs and assure a moderate flow of new money. Finally, the intensive involvement of the IMF and World Bank (as well as other official institutions) in providing policy guidance and financial assistance was considered vital in dealing with both short-run and long-term aspects of the debt problem.

At the onset there were widespread doubts whether all five elements could be pulled together. Particularly in question were the timing and extent of industrial-country recovery, the commitment of the developing countries to balance of payments adjustment, and the willingness of banks to continue lending to LDCs. However, a year later, the record shows surprisingly favorable accomplishments in several areas — notably the drop in interest rates, the U.S. economic upswing, and LDC external adjustment. Time has been won to work on a long-term solution to the international debt problem. The key priorities are to broaden economic recovery in the industrial world beyond North America; to encourage internal reforms in developing countries to boost their export performance, permit renewed economic growth, and sustain their balance of payments improvement; and to assure adequate new financing from both private and official sources, with maturities realistically tailored to LDC debt-servicing capacities.

The OECD recovery

Twelve months ago the external environment facing developing coun-

Table 1

Real GNP/GDP growth

percent per annum

	1982	1983	1984
All industrial countries	—0.5	2.1	3.5
United States	—1.9	3.2	5.0
Canada	—4.8	2.5	4.5
Japan	3.0	3.2	4.2
Germany	—1.1	1.2	2.5
France	1.7	—0.5	0.0
Italy	—0.3	0.0	0.0
United Kingdom	1.0	2.3	1.8

Chart 2

Real U.S. interest rates and the dollar

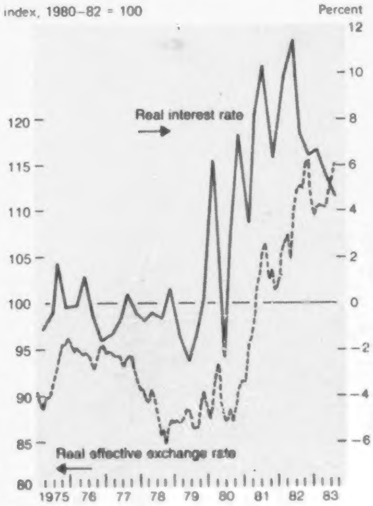


Table 2

Monetary aggregate targeting for 1983

percent changes at annual rates

	Target aggregate	Target range	Actual*
United States	M1	5—9	9.0
	M2	7—10	8.0
Japan	M2+CD	7—7.9	7.0
Germany	Central bank money	4—7	9.5
France	M2	9	12.4
United Kingdom	£M3	7—11	12.5

*Annualized rate to date in 1983 from the relevant base periods.

tries looked bleak. While interest rates were down from their peaks earlier in 1982, there were fears that rates would climb again unless the Federal Reserve shifted course. Most OECD economies were gripped in recession, made worse by massive inventory rundown. Overall activity was sliding, as were commodity prices and LDC export sales. With forecasted recovery having repeatedly failed to materialize, few observers looked forward to 1983 with confidence.

However, by the early spring of this year it was clear that the North American recession had bottomed out late in 1982. Both the U.S. and Canadian economies have since rebounded with remarkable speed. U.S. real GNP growth, 9.2% at an annual rate in the second quarter, appears to have remained strong in the present quarter. By July U.S. industrial production had recovered three-quarters of its losses of the preceding two years (see Chart 1). Canadian activity displayed comparable vigor. By contrast, Japan's economy is progressing far below potential. Europe presents a mixed picture. Modest growth in Germany and Britain is accompanied by stagnation in France and Italy. Still, following last year's ½% decline, the OECD countries as a group now look set for real GNP growth in 1983 of a little over 2% — thanks mainly to the North American recovery (see Table 1). Next year industrial-country growth should climb to 3.5%, and a steady rate thereafter could be on the order of 3%.

The prospective strength, breadth, and durability of the world upturn center on the U.S. outlook and the direction of U.S. interest rates. The rapid pace of the U.S. upswing over the past six months obviously cannot be maintained. Indeed, many observers would never have believed such dynamism possible in the face of high real interest rates and significant deterioration in external demand associated with weak foreign markets and the strong dollar (see Chart 2).

In setting policy, the Federal Reserve is looking both at the real economy and at price and wage trends, as well as the monetary aggregates. Achieving the right degree of monetary restraint is its chief challenge. With economic growth moderating and the monetary aggregates within their target ranges (see Table 2), the Federal Reserve is unlikely to change policy. Interest rates are likely to fluctuate narrowly in the months ahead. At current levels, interest rates will temper, but not choke off, housing and inventory investments. Plant and equipment investment will be influenced more by prospective profitability and demand than by interest rates. With rising employment, consumer demand looks firm. In all, with quarterly increases averaging 4% or so at an annual rate for the year ahead, this year's GNP gain should exceed 3%, and 5% looks within reach for 1984.

Slowing of the economic advance should help to consolidate prog-

Table 3

Fiscal balances

financial balances of general government as percent of GNP

	Balance		*Change from 1982 to 1983 due to policy adjustments**
	1982	*1983*	
United States	—3.8	—4.4	—0.6
Canada	—5.3	—6.5	—0.8
Japan	—4.1	—3.4	1.4
Germany	—3.9	—3.7	1.3
France	—2.6	—3.4	0.0
United Kingdom	—2.0	—2.5	0.0
Italy	—12.0	—11.6	1.9

*Positive number indicates a move toward surplus (restriction).

Source: OECD

ress against U.S. inflation. So far this year consumer prices have advanced at a mere 3.2% annual rate, while wage gains have continued to moderate. Unit labor costs actually dipped in the second quarter. Subdued cost trends provide the main support for mainstream expectations of quite modest acceleration of U.S. inflation in 1984, to perhaps 5% on the CPI following this year's 3%. Yet inflationary anxieties are by no means quelled. With soaring business profits and falling unemployment, there could be slippage in cost-cutting resolve and wage discipline. There are also worries about food prices in the wake of adverse summer weather. Moreover, monetarists are intensely concerned with the large cumulative expansion in money supply over the past year.

Even more than the increase in short rates that accompanied Federal Reserve tightening in the spring has been the run-up in long-term interest rates. Market fears of either "crowding out" or inflationary monetization of the budget deficit appear mainly responsible. With strong corporate cash flows, the present indication of slowing economic growth should ease fears of an early public-private clash in credit markets. But the U.S. budget deficit still threatens higher interest rates than would otherwise prevail in the context of Federal Reserve commitment to its monetary targets. Such higher interest rates, through their impact on sensitive sectors, could in time distort the ongoing economic recovery, favoring consumption over investment with possible adverse consequences for long-term growth.

In the short run, however, the direct expansionary role of the widening budget deficit should be acknowledged, since it boosts private and public consumption. Fundamentally, it is the solid outlook for consumption that underwrites the encouraging U.S. outlook. Hesitancy about prospective consumption, compounded by restrictive fiscal policies, is at the root of the more feeble growth performance and outlook for Japan and Europe. In Japan and Germany fiscal policies are still being tightened on a cyclically adjusted basis (see Table 3).

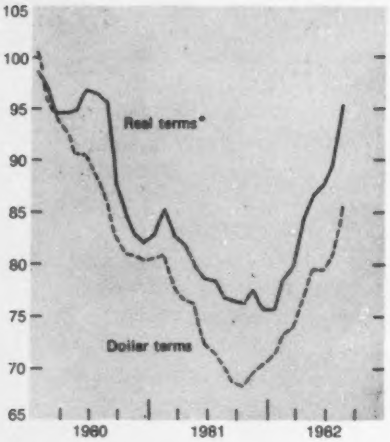
Japan's recovery is modest relative to previous postwar experience, with real growth projected at 3.2% in 1983 and 4.2% in 1984. Growth to date has depended more on the unhealthy force of reduced import demand than on any strength in internal demand. In fact, domestic demand has slowed as a result of low wage increases (4.4% in 1983 versus 7% in 1982), budget austerity, high real interest rates, and low capacity utilization. With a tight fiscal stance, official hopes for growth in 1984 rely on business investment and inventory buildup. External demand, it is said, will provide no net stimulus, as exports will be held back by trade frictions while imports will recover on increased private demand.

In Germany, growth is projected at 3% in 1983 (Q4/Q4), slowing to under 2% in 1984. On a calendar-year basis this implies 1.2% growth this year and 2.5% in 1984. Recovery is being led by private consumption and construction, spurred by lower interest rates. Savings rates have declined with the return of consumer confidence despite high unemployment. The German recovery is somewhat fragile, not only because high unemployment jeopardizes confidence, but because the recovery lacks support from external demand — whether from LDCs or from within continental Europe. France and Italy, which together accounted for over 20% of German exports in 1982, will show no significant growth until inflation abates and current account deficits shrink. Thus, German growth can be sustained in the year ahead mainly on

Chart 3

Commodity prices

index, 1980 = 100



*Dollar index deflated by OECD manufactures prices.

the basis of expanding domestic demand.

Britain's recovery also rests on domestic demand, principally on private consumption and an end to large-scale inventory drawdown. Real GDP, already rising in 1982, should expand more than 2% in 1983, with domestic demand rising better than 3%. Some of the increase in U.K. spending has spilled over into imports because the strength of sterling reduces domestic competitiveness. U.K. growth will likely slow in 1984, as consumer spending loses steam and the government returns to a tighter fiscal stance.

Governments in Japan and Europe are attempting to stimulate growth through expansionary monetary policies — in Europe even looser than intended. While short-term interest rates have declined, long-term interest rates have fallen less. In both Germany and the United Kingdom, the aggregates have been above their target ranges for much of the year. The excess now seems to be narrowing in Britain. In Germany, the monetary overshoot finally prompted the Bundesbank to hike the Lombard rate this month. By contrast, the easing in Japan's monetary policy occurred two years ago, and this year's money supply performance is on target so far. But following their substantial declines in 1981 and early 1982, Japanese interest rates have not eased much this year.

European and Japanese governments place their faith in lower interest rates as a means to stimulate demand. But the scope for further declines now is limited. Even in the absence of concern about monetary growth, governments judge their leeway for easier monetary policy to be limited by high U.S. interest rates and the strength of the dollar. The Japanese worry that a weaker yen would exacerbate trade frictions. Europeans worry that further depreciation of their currencies could lead to imported inflation, although they hope for export benefits.

Despite lopsided dependence on the U.S. upturn, economic recovery in the industrial countries benefits the developing countries in two principal ways: it creates markets for LDC exports, provided protectionism is held in check; and it raises commodity prices. Indeed, in dollar terms they have already risen 25% since last October. Moreover the strong dollar and declining industrial-country inflation have lowered LDC import prices. Consequently, the commodity terms of trade of the non-oil LDCs have risen more than 25% above their trough in December 1982 (see Chart 3).

As the recovery continues, commodity demand in the industrial countries will strengthen and prices will increase even more, relative to manufactures. Determination by the major industrial countries to prevent acute inflationary pressures will forestall as sharp an increase in real commodity prices as occurred in the late 1970s. Even so, the combination of rising real demand from industrial countries and better prices for their products provides most LDCs a much improved export outlook.

Oil markets and prices

The beginning of world economic recovery has allayed fears of a precipitous decline in oil prices. Official prices stabilized following the reduction of $5 per barrel in the OPEC benchmark price last March. Since then spot prices have moved upward, and certain oil exporters (Egypt, Iran, Mexico, the USSR, and Venezuela) have made minor upward adjustments to some official prices.

Table 4

Trade balances of selected LDCs

billions of dollars

		1983	
	1982	*Est. 1st half**	*Proj. year*
Argentina	2.7	4.3	3.3
Brazil	0.8	5.9	6.2
Chile	0.2	1.5	1.3
Ecuador	0.2	0.8	0.6
Mexico	6.6	12.9	10.8
Peru	—0.3	0.3	0.1
Venezuela	3.4	8.6	5.5
Subtotal	13.6	34.3	27.8
Colombia	—1.9	—1.9	—1.3
Indonesia	1.0	—0.8	1.5
Korea	—2.4	—2.4	—2.3
Malaysia	—0.6	—0.4	0.2
Philippines	—2.8	—2.9	—2.3
Taiwan	3.6	6.7	4.8
Thailand	—0.9	—2.0	—1.5
Subtotal	—4.0	—3.7	—0.9

*Annualized, not seasonally adjusted.

Changed market expectations and inventory behavior have been as important as basic oil consumption and output trends in bringing about price stability. OPEC members' fairly good adherence to production quotas and price differentials, Saudi Arabia's output reduction, and tacit support for OPEC by some key non-OPEC producers trimmed the amount of oil available during the second quarter, and also strengthened the perception that the OPEC agreement would hold. Equally important was the slowdown in the rate of decline of oil consumption. In the United States, which accounts for one-third of world consumption, rapid recovery led to an actual pickup in oil use in midsummer — the first rise in four years.

Economic recovery in industrial countries and the upswing in oil consumption during winter point to continued oil price stability for the next six months — and probably throughout 1984. Oil consumption in the industrial countries, after a cumulative drop of nearly 20% over the past four years, is expected to rise, by perhaps 1%-2%. OPEC members could then increase oil export volume by up to 2 million bpd — their first rise since 1979. Non-OPEC oil exporters will share the increased demand. Higher export volume should ease the financial strains facing oil exporters and lessen temptations to win market share through price discounts. Nevertheless, OPEC will still need to restrain production in order to ensure oil price stability throughout 1984. If a pickup in oil consumption leads to excessive production, particularly during the second quarter's seasonally weak demand, price stability could be threatened.

Stability implies an average price of around $29 per barrel for 1983 and 1984, a reduction of nearly 15% from 1982. Because of the dollar's strength, the decline in domestic-currency oil prices for most oil-importing countries has been much smaller. If and when the dollar weakens, however, many countries will enjoy a decline in oil prices in domestic-currency terms, even if dollar-denominated oil prices remain unchanged.

Oil price prospects beyond 1984 are less clear. Following an initial upward kick to demand as inventories turn, the underlying growth in world consumption is likely to be modest. Barring political upheaval, supplies will be more than adequate, and OPEC's excess production capacity will remain large. Price stability will continue to depend on the ability of OPEC to control its production and, increasingly, on the willingness of key non-OPEC exporters to share their restraint. Pressures to increase foreign exchange earnings make it questionable whether such restraint and cooperation between OPEC and non-OPEC oil exporters can be maintained On economic grounds, therefore, the chances for further price declines could increase after 1984.

LDC economic adjustment

The developing countries' progress in external adjustment is encouraging. Seven major Latin American borrowers with debt-servicing difficulties have accomplished a stunning turnaround in trade performance (see Table 4). In the six years before 1982 these economies ran a virtually balanced trade account, with annual surpluses or deficits never aggregating more than $3 billion. Last year, by contrast, they recorded a trade surplus of about $13½ billion, and in the first half of 1983 that surplus more than doubled to an annualized level of $34½ billion. This was accomplished despite a 10% fall in the value of their goods and services exports in 1982. Only in recent months have export

Table 5

Current account balances of selected LDCs

billions of dollars

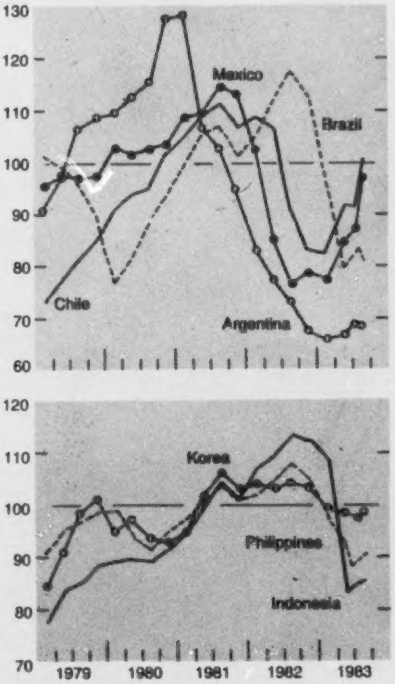
	1981	*1982*	*Proj. 1983*
Argentina	—4.7	—2.4	—1.4
Brazil	—11.7	—16.3	—8.5
Chile	—4.8	—2.4	—0.5
Ecuador	—1.0	—1.1	—0.4
Mexico	—12.5	—2.7	1.4
Peru	—1.5	—1.4	—1.1
Venezuela	4.0	—3.5	—0.5
Subtotal	—32.2	—29.8	—11.0
*% of exports**	—30.0	—30.9	—11.7
Colombia	—1.9	—2.3	—1.9
Indonesia	—0.7	—6.6	—5.5
Korea	—4.6	—2.5	—2.7
Malaysia	—2.9	—3.4	—2.7
Philippines	—2.3	—3.3	—2.7
Taiwan	0.5	2.2	3.5
Thailand	—2.6	—1.2	—1.7
Subtotal	—14.5	—17.1	—13.7
*% of exports**	—12.8	—15.4	—12.1

*Exports of goods and services.

Chart 4

Real effective exchange rates for selected LDCs

index, 1980-82 = 100



earnings begun to rise again, and still only for some countries (notably Brazil and Mexico).

The improvement in trade balances has come about largely — and in Argentina and Peru, solely — through cuts in merchandise imports. Last year the seven countries reduced their imports almost 20%. In the first half of this year, relative to first-half 1982, imports were down a further 20%-30% in Argentina and Brazil, 30%-40% in Chile, Ecuador, and Peru, and as much as 50% in Venezuela and 60% in Mexico. Since such low import levels are not sustainable, the group's anticipated surplus for all of 1983 is closer to $28 billion.

Adjustment is under way in seven other major borrowing countries (mainly in Asia) that are also experiencing export weakness. Growth of their merchandise imports was brought down from 27% in 1980 to practically zero in 1982, and their imports actually declined 3% in the first half of 1983 relative to the first six months of last year. A small ($4 billion) trade deficit was registered in 1982 and persisted into the first half of this year. Surpluses should be achieved during the second half of 1983 and in 1984, as export markets firm and measures to restrain imports take hold in Indonesia and the Philippines.

Latin American progress in reducing current account deficits has lagged the improvement in trade balances. Mainly because of increased interest payments, the current deficit of the seven countries was reduced last year by a mere $2½ billion, and not at all in relation to exports of goods and services (see Table 5). This year, however, with interest payments $3½ billion less than in 1982, the large trade surplus will lead to a dramatic reduction in the group's current account deficit to around $11 billion, or 12% of 1983 exports — barely one-third last year's deficit. As a result, their current account imbalance in terms of exports should be the lowest in more than a decade. The largest improvement will be for Mexico, which has wiped out its previously excessive deficit ($12½ billion in 1981, or 41% of export earnings) and will register a small surplus this year.

The turnaround in external balances follows the adoption or tightening of fiscal, monetary, and wage policies, as well as major exchange rate corrections. In general, stabilization programs vary in emphasis and degree, but not in substance: they rely on higher taxes, increased fuel and utility prices, and cuts in investment outlays in order to close fiscal imbalances that had reached 15% of GDP in Argentina, Brazil, and Mexico; they also rest on restrictive monetary policies featuring higher interest rates in real terms; and they aim at containing nominal wage gains, seeking to tie wage settlements to lower *future* rates of inflation rather than to high *past* rates of inflation.

Exchange rate adjustments include one-time devaluations (as in Ecuador and Indonesia), or sizable one-step corrections combined with accelerated minidevaluations (as in Brazil, Chile, and the Philippines). Real effective exchange rates have depreciated substantially (see Chart 4). These mutually reinforcing policies have lowered aggregate demand and raised relative prices of tradable goods, thus cutting imports through both income and price effects. Real GDP growth was cut back nearly everywhere in 1982 (see Table 6), but especially in Latin America: apart from Colombia, Latin America's GDP fell by almost 1% on average last year and could fall an extra 4% this year — the worst GDP performance since the Great Depression. In contrast, GDP growth in Colombia and in the major Asian

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Table 6

Real GDP growth in selected LDCs

percent per annum

	1981	*1982*	*Proj. 1983*
Argentina	—5.9	—5.6	3.0
Brazil	—1.9	1.4	—5.0
Chile	5.7	—14.3	—3.0
Ecuador	4.4	1.4	—2.0
Mexico	8.1	—0.2	—5.0
Peru	3.9	0.7	—9.0
Venezuela	0.4	0.6	—4.0
*Average**	2.2	—0.9	—3.9
Colombia	2.5	1.5	2.5
Indonesia	7.6	2.5	0.0
Korea	6.4	5.4	8.3
Malaysia	6.7	4.6	5.0
Philippines	3.7	2.8	1.5
Taiwan	5.0	3.8	6.0
Thailand	6.3	4.2	5.5
*Average**	5.9	3.9	4.8

*Weighted by 1982 exports of goods and services.

Table 7

Inflation in selected LDCs

percent change in consumer prices from 12 months earlier

	Dec 1981	*Dec 1982*	*June 1983*
Argentina	131.3	209.7	340.1
Brazil	91.2	97.9	112.2
Chile	9.5	24.3	32.3
Ecuador	18.0	24.4	48.2
Mexico	28.7	98.9	112.5
Peru	72.7	72.9	107.7
Venezuela	11.0	7.7	5.4
*Average**	50.9	82.6	105.8
Colombia	25.6	24.1	20.5
Indonesia	7.3	10.0	13.5
Korea	11.7	4.8	3.1
Malaysia	8.8	5.2	4.0
Philippines	12.6	7.3	6.6
Taiwan	9.9	3.0	3.7
Thailand	12.4	2.6	3.2
*Average**	10.9	6.3	6.3

*Weighted by 1982 exports of goods and services.

economies (Indonesia and the Philippines excluded), should pick up in 1983, mainly through improved exports.

Latin America's success in meeting external goals stands in stark contrast to its difficulties in attaining domestic objectives. Although trade performance meets targets set six or nine months ago, domestic indicators give little cause for comfort. For example, inflation in the seven countries mentioned earlier has more than doubled since end-1981, from 51% to over 105% as of June 1983 (see Table 7). To be sure, some acceleration of inflation was to be expected from the one-time, cost-push elements of stabilization programs (e.g., devaluations and gasoline price rises). But the persistence of such high inflation betrays underperformance in meeting basic fiscal, monetary, and wage objectives.

Planned reductions of fiscal deficits in Argentina, Brazil, Peru, and Venezuela have been hampered by recession and export-related shortfalls in tax revenues, by the inability of central governments to control spending by state companies and agencies, and — in the first three countries — by the effect of high inflation on indexed domestic interest payments. Monetary restriction in Chile and elsewhere has been impeded by official support for financial institutions in difficulty and funding of preferential exchange rate schemes for private companies' external debt service. Wage restraint, particularly in Argentina and Brazil, has been elusive. For these reasons, Brazil and Chile fell out of compliance with their IMF-approved programs during the first half of this year, and Argentina and Peru may fail to meet IMF conditions during the second. Venezuela has been unwilling to agree to the prerequisites even for a low-conditionality IMF facility. Only Mexico among the major Latin American economies has attained domestic objectives and stands a good chance of fulfilling performance targets in the months to come. The public-sector deficit in 1983 will be less than half last year's level of 16½% of GDP, bank credit creation has decelerated, and wages have fallen in real terms.

Another worrisome trend is increased reliance on trade and capital controls. In much of Latin America protectionist sentiment and policies out of favor since the 1950s have had a sudden rebirth: free-trade principles are held responsible for past import booms that in reality were the result of overly expansionary demand management and incorrect exchange rate regimes. Thus, import bans, tariffs, licensing schemes, and local-content rules have mushroomed. Expanded government-to-government barter trade within Latin America is being advocated. Capital controls and various exchange restrictions have been resurrected to stem outflows that should have been corrected long ago through better interest and exchange rate policies — before the massive capital flight from countries such as Argentina, Mexico, and Venezuela during 1979-82. The new controls are leading to payments arrears and are scaring away potential foreign investors and lenders. Moreover, multiple rates and black markets for foreign exchange — in Argentina, Brazil, Ecuador, and Venezuela transactions take place at 50% to 100% above official rates — complicate official cash-flow management by delaying and diverting export income. These trends contrast with the adjustment strategies of most Asian economies, where liberalization (as in Korea, the Philippines, and Thailand) has continued even in the face of payments pressures.

Table 8

*Changes in BIS-reporting banks' outstanding claims on LDCs**

end-Sep 1982 to end-Mar 1983

	$ billions	*%*
Latin America	0.46	0.2
Argentina	0.18	0.8
Brazil	1.90	3.4
Chile	—0.59	—5.7
Colombia	0.41	8.0
Mexico	—0.03	—0.0
Peru	—0.23	—4.5
Venezuela	—0.28	—5.4
Others	—1.08	—4.9
Asia	6.23	13.4
Indonesia	1.67	32.9
Korea	1.95	11.9
Malaysia	1.52	40.8
Philippines	—0.06	—0.7
Taiwan	0.12	2.5
Thailand	0.34	13.1
Others	0.69	12.3
Middle East and Africa	0.11	0.1
Egypt	—0.17	—4.0
Israel	0.42	7.9
Ivory Coast	0.00	0.0
Morocco	0.17	5.1
Nigeria	1.50	24.9
Turkey	0.00	0.0
Others	—1.81	—3.6
Total	6.80	2.1

*Excludes offshore banking centers.

Bank financing

With the onset of LDC debt-servicing problems last year, a slowdown — but not a stoppage — in bank lending to LDCs appeared desirable. Estimates placed their net new bank credit needs in 1983 at around $25 billion, an increase of about 7% in banks' overall LDC exposure. In view of the negative attitudes that the debt crisis spawned, this target looked ambitious. Yet, following a mere trickle of new lending in the winter months of 1982-83, commitments are now in place or in the works that could bring lending closer to target.

Last winter's credit drought is illustrated dramatically in the comprehensive, though laggard, BIS data. Reporting banks' outstanding claims on LDCs (excluding offshore banking centers) increased by only $7 billion, or at an annual rate of 4%, in the six months ended March 1983. LDC loans of U.S.-chartered banks (domestic offices and foreign branches) rose 6½%, while non-U.S. banks' lending to LDCs increased less than 2½%.

Latin America was hardest hit. Its outstanding indebtedness to BIS-reporting banks increased by just $500 million, or less than 1% (see Table 8). Only Brazil and Colombia received significant net amounts of new credit. The Middle East and Africa also attracted little new money. By contrast, bank lending to the Asian LDCs as a group continued at a good pace, increasing by $6.2 billion, or 27% at an annual rate. Increases were recorded for all principal borrowers except the Philippines.

Commitments data convey a somewhat brighter trend in lending to Latin America. Following the crisis, it took considerable time to arrange new loan commitments in conjunction with debt reschedulings and IMF-supported adjustment programs. During the first eight months of this year, banks extended about $14.7 billion in new medium-term credit facilities to Latin American borrowers, $13.7 billion as part of special financing packages. A $15 billion increase would constitute a 7% rise in BIS-reporting banks' exposure to Latin America. However, the actual rise may be less. Difficulties in completing loan documents or failure by borrowers to meet IMF-program conditions are leading to further disbursement delays. Moreover, some new money goes to repay earlier bridge loans, and some countries have experienced withdrawals' of short-term credit lines.

Publicized gross new medium-term Eurocurrency bank credits for LDC borrowers in Asia and in the Middle East and Africa have been running ahead of last year's pace (see Table 9). In addition, Asian LDCs have raised more than $1¼ billion in international bond markets. Some borrowers, however, especially those lagging in adjustment or most heavily indebted relative to exports, have had difficulty obtaining additional funds from banks.

Besides new lending, banks have also completed or opened negotiations to reschedule some of their loans to Latin American countries (Colombia is the major exception), as well as to several African nations. Debts being rescheduled are primarily medium- and long-term public-sector obligations originally slated to mature in 1983 or 1984 (with some 1982 maturities also rescheduled for Argentina, Ecuador, and Mexico). In general, maturities are being extended for between five and eight years, with grace periods of between two and four years. In most instances, nearly all banks holding maturing loans are participating. Since reschedulings usually involve a parallel commitment by

Table 9

Publicized gross new medium-term Eurocurrency bank credits

billions of dollars

		Jan-Aug 1983	
	1982	*Total*	*(Special)**
Latin America	26.71	14.68	(13.67)
Argentina	1.57	1.75	(1.75)
Brazil	5.72	4.48	(4.40)
Chile	1.19	1.32	(1.30)
Colombia	0.74	0.30	
Mexico	7.95	5.10	(5.10)
Peru	1.07	0.47	(0.45)
Venezuela	6.80	0.24	
Others	1.29	1.02	(0.67)
Asia	8.13	6.51	
Indonesia	1.25	1.17	
Korea	2.92	1.72	
Malaysia	1.91	0.88	
Philippines	0.64	0.72	
Taiwan	0.26	0.54	
Thailand	0.27	0.25	
Others	1.06	1.23	
Middle East and Africa	6.58	5.81	(1.60)
Egypt	0.35	0.29	
Israel	0.01	0.00	
Ivory Coast	0.43	0.03	
Morocco	0.33	0.29	
Nigeria	2.04	1.74	(1.60)
Turkey	0.28	0.50	
Others	3.14	2.96	
Total	41.42	27.00	(15.27)

*Amounts in parentheses represent new money commitments or refinancings arranged as part of special financial packages which include reschedulings.

lenders to provide new money and by the borrower to carry out an IMF adjustment program, negotiations have often been protracted.

Little restructuring of excessive short-term debt has taken place, although it contributes importantly to debt-servicing problems. There are a few exceptions, notably Mexico, where nearly $10 billion of public-sector liabilities with original maturities of less than one year were included. In most instances short-term trade credits and interbank lines are being rolled over or maintained at some agreed level. Several countries, Brazil in particular, experienced sizable withdrawals of short-term credit facilities both before and during debt negotiations. Such runoffs aggravate the borrowing countries' foreign exchange shortages and lessen the net credit provided. Progress in rescheduling the external debt of private-sector borrowers in some LDCs also has been slow.

In sum, despite enormous efforts, it still appears that bank lending to LDCs this year will fall short of the informal 7% target, by perhaps $5 billion. To date, U.S. money center banks are providing a disproportionately high share of the new money, while others have lagged. Moreover, much less has been achieved in the restructuring of short-term credits than is desirable.

The IMF

A constructive feature of the past year has been IMF leadership in not only providing financial support and policy advice but also forging a close relationship with commercial banks in guiding new credits. During the year ended June 30, 1983, commitments under standby and extended arrangements increased $10 billion, or more than 60%, all earmarked for developing countries (see Table 10). In addition, LDCs drew nearly $5 billion from other Fund facilities. Total net drawings from the Fund rose more than $10 billion, to $27 billion. IMF credit could cover an unprecedented 30% of the aggregate current account deficit of principal LDC borrowers this year (see Table 11), and approximately 20% of the combined current account deficit of all non-oil LDCs, versus less than 3% in the late 1970s.[1]

But this expanded lending is straining the IMF's resources. As of mid-1983, undisbursed commitments under standby and extended arrangements were $16 billion. Against this, the IMF held about $13 billion in usable currencies — currencies of countries having no balance of payments difficulties and strong reserve positions — and $5½ billion in unutilized borrowing arrangements with central banks. Contingency needs mean that, in practice, the IMF cannot allow its usable currencies to be exhausted. To shore up its resources the Fund is negotiating $6 billion in new loans, of which half is to come from Saudi Arabia and the rest from a group of European countries and Japan. Without this infusion, the IMF could soon run out of usable funds.

A year ago, at the annual IMF-World Bank meetings, it was recognized that the IMF's resources would have to be augmented. Agreement was reached early in 1983 to press for quick ratification of a 47% increase in quotas, which would add about $15 billion in usable currencies, and for an expansion of the General Arrangements to Borrow (GAB) that would make another $12-$13 billion in

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[1] This compares with a current share of less than 10% from the World Bank. New IBRD/IDA credits to the LDCs approved in the year ended June 30, 1983 reached $14.4 billion and could climb to $15.5 billion in the current fiscal year. But, the actual *net* flow of resources from the IBRD/IDA to developing countries in the past fiscal year was only $4½ billion, reflecting both repayments and project disbursement lags.

Table 10

IMF loan commitments outstanding and available resources

billions of dollars

	IMF standby and extended arrangements		*Available resources*	
	Commitments	*Undisbursed*	*Undrawn credit lines*[1]	*Usable currencies*
April 30, 1979	2.0	1.8	—	11.2
April 30, 1980	3.9	3.4	9.2	13.4
April 30, 1981	11.5	9.8	6.4	28.4
June 30, 1982	16.0	10.8	12.3	19.0
June 30, 1983	25.9	15.9	5.6	13.0e

[1] Excludes existing GAB credit lines, which are restricted to the ten major industrial countries.

Table 11

Changes in IMF credit outstanding to selected LDCs

billions of dollars

	1981	*1982*	*Est. 1983**
Argentina	—	—	1.86
Brazil	—	0.55	2.14
Chile	—0.06	—0.04	0.63
Ecuador	—	—	0.13
Mexico	—	0.22	1.08
Peru	—0.05	0.28	0.21
Venezuela	—	—	—
Subtotal	—0.11	1.01	6.05
% of current account deficit	—0.3	3.4	55.0
Colombia	—	—	—
Indonesia	—	—	0.46
Korea	0.63	0.08	0.15
Malaysia	0.22	0.06	0.12
Philippines	0.18	—0.07	0.15
Taiwan	—	—	—
Thailand	0.55	0.03	0.23
Subtotal	1.58	0.10	1.11
% of current account deficit	10.9	0.6	8.1
Total	1.47	1.11	7.16
% of current account deficit	0.0	2.4	29.0

*Assumes all disbursements take place on schedule.

credit available in exceptional emergency situations. Together, these steps would go a long way toward meeting a potential demand for IMF credit (other than compensatory finance) of $15-$25 billion during the next two years. But stiff opposition in the U.S. Congress remains a major hurdle.

Some believe the Fund should increase its reliance on *borrowings* — from either governments or commercial markets — rather than depend on *quota* increases to add to its resources. Borrowings recently have proved increasingly difficult and are subject to political complications. The Federal Reserve has no authority to lend to the Fund, and U.S. Treasury support would have to be approved by Congress. In addition, the short-term nature of some borrowings could result in a mismatching of maturities that would weaken Fund liquidity.

Commercial financing might offer the IMF flexibility in restoring its liquidity, and further strengthen ties between the Fund and commercial banks. The IMF's ability to obtain commercial financing on a *large* scale would hinge on the Fund's own creditworthiness, involving market judgments about its loans to developing countries and ownership of its gold holdings. Several important creditor nations are also concerned that extensive IMF borrowing in the markets could dilute government support for the Fund and transform it from an intergovernmental organization into a mere financial intermediary, weakening its ability to impose conditions on its sovereign borrowers in the process. It is also unclear whether IMF borrowing would increase the overall resources channeled to LDCs, rather than draw off funds that would be otherwise available for direct bank lending. The best route for supplementing the Fund's resources clearly lies in continued strong, official commitment as would be evidenced by passage of the quota legislation.

The task ahead

The past year has seen a number of major achievements in handling the international debt crisis. The hostile environment that faced developing countries has turned more favorable. OECD recovery — a necessary but not sufficient condition for resolving the debt problem — is well under way. Interest rates are down from last year's peaks and are unlikely to rise sharply despite economic recovery. Commodity prices have climbed from their cyclical lows, while industrial-country inflation has abated rapidly, improving the terms of trade for non-oil LDCs. A collapse in oil prices that could have aggravated the problems of oil-exporting LDCs also has been avoided. LDC trade and current account adjustment, achieved primarily through import cutbacks and reduced economic growth, has been impressive.

Progress in these areas, together with close cooperation among the IMF, the banks, and industrial-country governments, has averted a breakdown in the international financial system and has bought much needed time to apply long-term corrective measures.

One priority is to strengthen OECD recovery. This will require that countries enjoying low inflation and current account surpluses or currency strength pursue policies to promote domestic economic expansion.

The United States already is on a firmly expansionary path. U.S. policymakers should continue to focus on sustaining recovery and should not become preoccupied with a widening current account deficit. To avoid a further rise in interest rates that would hamper recovery at home and abroad, monetary restraint remains necessary to inhibit renewed U.S. inflation. In due course fiscal restraint also will be needed to allow room for private investment.

The fragility of recovery outside North America points to the need for a change in policy. With inflation negligible and a record current account surplus, there can be no excuse for Japan to defer decisive measures to boost domestic economic activity. While long-run fiscal reform is called for, the Japanese would do well to slacken their attempts at fiscal austerity for the time being. In addition to promoting economic growth, such action would also go a long way toward reducing trade frictions.

European countries face severe problems of public-sector size and management. It is understandable that they are reluctant to reverse painfully established fiscal priorities. Nonetheless, there is room for countries whose government budget deficits largely reflect cyclical conditions — notably Germany — to postpone planned reductions in those deficits until recovery is better established. In sum, other industrial countries have a clear responsibility to ensure that the United States not be left alone to play the role of locomotive for the world economy, because this would eventually lead to a new round of currency gyrations and could aggravate protectionist tendencies.

Given the cutbacks in living standards the LDCs have experienced, it is vital that they soon be able to resume import growth that would permit renewed economic growth overall. With limited external financing available, their scope for domestic recovery hinges, in large part, on an improved export performance. This will require a profound reordering of priorities, particularly within Latin America, to accomplish a major shift of resources to companies able and willing to generate exports.

Such a shift demands a basic reassessment of the development role of the state. In too many countries, governments have worsened the allocation of resources — whether by setting key prices wrong (e.g., exchange rates, wages, and interest rates), or by abetting state-owned companies and agencies that are voracious consumers of foreign capital but minimal producers of foreign exchange. Too often, governments have also obstructed the inflow of foreign investment and its associated technology. While significant import savings can be achieved through realistic energy policy and improved agricultural development, governments that give first priority to exports will be best placed to provide steadily rising living standards to their people.

Strategies based on import substitution alone, which entail an anti-export bias, do not deliver enduring economic dynamism — as can be seen in the contrasting records of Asia and Latin America in domestic growth, export achievement, and debt buildup. It is striking, for example, that exports of goods and services for Latin American countries average only 15% of GNP, whereas the major borrowing Asian LDCs export an average of 35% of GNP. For Brazil, the export/GNP ratio is a mere 8%, less than one-fifth that of

Table 12

External debt in relation to GNP and exports

	Average debt in 1983* as percent of	
	GNP in 1983	Exports of goods and services in 1983
Argentina	53	424
Brazil	43	359
Chile	90	290
Colombia	26	238
Ecuador	49	257
Mexico	61	275
Peru	65	331
Venezuela	44	196
Indonesia	34	146
Korea	55	130
Malaysia	37	70
Philippines	60	259
Taiwan	17	30
Thailand	30	131

*Average of estimated debt as of year-end 1982 and projected debt at end-1983.

Table 13

Potential export volume growth in selected LDCs*

growth rates in percent

	Estimated export elasticity**	1984	1985	1986
Argentina	1.28	8.8	6.7	6.4
Brazil	1.69	9.2	8.1	8.2
Chile	1.69	6.4	6.3	7.1
Mexico***	0.61	12.7	11.7	11.5
Korea	3.15	16.6	14.2	14.5
Philippines	1.45	7.0	6.7	7.0
Taiwan	2.70	17.2	13.6	13.3
Thailand	2.06	10.1	9.7	10.0

*Assumes OECD non-oil-import volume growth of 6% in 1984 and 5% in 1985-86, and maintenance of LDC export competitiveness during 1984-86 at first-half 1983 level.

**With respect to OECD non-oil import volume; estimates derived from 1970-82 data, with allowance for changes in real effective exchange rates.

***Non-oil export volume: elasticity derived with respect to U.S. non-oil import volume (assumed to grow 10% in 1984 and 6% in 1985-86).

Korea. The differences in debt burdens are equally noteworthy. Measured relative to GNP, the external debt of Brazil is smaller than that of Korea. However, relative to exports of goods and services — a more accurate indication of relative debt-servicing burdens — Brazil's external debt is nearly three times greater than that of Korea (see Table 12).

A reduction of debt burdens is essential for restoration of LDC creditworthiness and market access. Importantly, the necessary easing in debt burdens need not imply net repayment of outstanding debt — but rather a slowing in the rate of debt accumulation and diminution of debt outstanding in relation to export earnings. To date, efforts to alleviate the debt burden have focused on import cutbacks to narrow current account deficits and thereby slow the rate of debt accumulation. This approach, however necessary in the short run, has negative implications for long-term growth, economic development, and political stability. The focus now must shift to increasing export growth to maintain current account improvement while promoting overall economic growth.

The need for improved export performance can be highlighted by examining the implications of a continuation of past export trends, assuming no reordering of priorities in favor of the export sector. Based on performance since 1970, Table 13 shows the prospective export volume growth of the principal Asian and Latin American LDCs over the medium term, assuming realistic exchange rate policies and OECD growth of 3½% in 1984 and 3% per annum thereafter. Except for the Philippines, projected export growth in Asia exceeds 10% per annum and ranges up to 17% for Korea and Taiwan. By contrast, Argentina, Brazil, and Chile could achieve export growth of only 6½% to 9% next year. Mexico could witness growth of its non-oil exports of 12% per annum, but these represent only one-fourth of total exports.

Depending on terms of trade developments and external finance objectives, these export prospects should permit rebuilding of imports by such Asian LDCs as Korea and Taiwan, which enjoy relatively high export elasticities. But for Latin America, where export elasticities are not as great, OECD recovery alone will not be sufficient to maintain the recent improvement in trade balances — unless imports are restrained for a considerable period. For example, it is likely Argentina and Chile can maintain their 1983 trade surpluses only if import volumes are held below 1981 levels until at least 1987. If Brazil is to attain a $10 billion annual trade surplus, its imports would need to be restrained similarly. Mexico's import ability hinges primarily on expansion of petroleum export volume, at least as long as world oil prices do not increase sharply. Thus, resumption of overall economic growth in Latin America is vitally dependent on internal measures to boost exports, as well as sustained OECD recovery.

Perhaps the most critical aspect of the international debt problem still unresolved is the apparent shortfall in financing. The hoped-for 7% increase in net new bank lending to LDCs this year has not fully materialized despite tremendous efforts. In the present atmosphere to meet next year's financing needs will be no easier. The IMF's resources are practically fully committed, and in any event it is not the principal role of the Fund to cover shortfalls in private credits.

The key challenge in external financing thus is to rebuild the willingness of banks to lend. That willingness will be strongly influenced by evidence that the turnaround in

LDC external performance will be sustained. By the test of compliance with IMF stabilization targets for fiscal, monetary, and wage policies, domestic adjustment in the main debtor countries has a long way to go. In the case of Brazil, failure to meet domestic targets would endanger both the planned external financing package and Brazil's own hopes for renewed economic growth.

Besides renewal of confidence in LDC performance, banks also require a more positive, consistent approach by their own regulators if they are to play their part in LDC financing. Official exhortations to maintain lending have been accompanied by a general tightening of regulatory directives — and not only in the United States. Bank supervisors in a number of countries have directed banks to set aside reserves against loans to many LDCs. Equally worrying, U.S. banks will be discouraged from continued LDC lending by the regulatory proposals included in the House-passed version of the IMF legislation. One such provision would require U.S. banks to establish loan-loss reserves against foreign loans that may not be repaid without restructuring or additional borrowing — a requirement that few domestic borrowers, not even the U.S. government, could meet. Another provision would reduce the earnings of U.S. banks on LDC loans deemed to benefit from the increased U.S. contribution to the IMF. This would virtually eliminate any allowance for credit risk. Such short-sighted legislative actions would be highly counterproductive at a time when there is need for more bank lending, not less.

Passage of a "clean" IMF bill, one purged of counterproductive provisions concerning bank lending, is important to demonstrate continuing U.S. official commitment to the Fund, an institution that is one of the crowning accomplishments of the postwar era. Official backing for the IMF and its programs is crucial, not just for the financing that the Fund provides directly, but for the much greater amounts of private financing that are linked to IMF programs.

The role of the Fund, as well as the World Bank, goes far beyond financial support to borrowers. They have two other key responsibilities. The first is to encourage member countries to pursue sound demand and economic development policies. Fund and World Bank advice must increasingly emphasize not just orthodox demand management, but also policies to raise export performance and overall economic efficiency. The second is to work more closely with commercial banks, both to assure adequate new financing and to make known cases where the scale and maturities of external financing could lead to future debt-servicing problems. The intent would be to bring a longer-term perspective to external financing, one that avoids both shortages and excesses.

In the past year, the world's financial system has been severely tested. Close cooperation among the principal parties has given rise to a strategy for dealing with the long-run nature of the international debt problem. While some pressing short-run needs remain, such as completion of Brazil's IMF agreement and the associated financing package, the year ahead must see major strides toward implementing the long-term strategy. There will be difficulties, but only steadfast adherence to that course promises a restoration of economic growth in the developing countries, with wider benefits for world prosperity and financial stability.

Statistical appendix

for key to data in tables see pages 22 and 23.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers 1980-82=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.0	82.0	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.7	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1982																
September	113.3	100.0	94.6	97.0	89.4	103.7	92.5	99.6	102.2	90.6	103.9	95.0	104.3	93.2	97.4	96.8
October	114.9	100.8	92.4	97.0	89.7	104.4	91.9	100.5	102.7	90.3	104.9	94.5	104.4	95.4	97.5	85.5
November	115.0	101.2	95.6	97.2	90.1	104.8	91.1	97.5	103.0	90.5	105.3	92.4	104.7	96.7	98.5	82.4
December	111.3	99.5	103.0	96.7	91.6	106.7	92.1	92.9	103.8	90.8	105.7	83.9	107.3	98.2	98.2	81.2
1983																
January	109.7	100.2	106.7	97.3	91.8	106.9	92.8	89.4	103.6	91.1	106.3	82.6	111.3	98.9	97.4	81.0
February	111.0	100.5	105.9	96.8	91.8	107.0	92.6	88.2	103.6	91.0	106.2	81.9	110.3	98.6	98.0	81.1
March	112.0	100.9	105.8	89.3	90.7	109.0	91.4	86.4	104.8	92.2	106.5	80.5	108.4	98.8	97.8	81.2
April	112.5	100.4	106.4	87.5	87.7	109.1	91.3	90.2	104.4	91.5	105.1	80.1	109.9	98.7	98.7	81.5
May	112.2	100.6	107.8	88.2	87.0	108.4	90.8	92.9	104.0	90.8	104.8	79.5	110.6	97.4	99.3	81.7
June	114.3	100.8	106.6	89.4	86.4	107.6	90.7	93.6	103.4	90.2	104.6	78.3	110.6	96.3	99.6	82.2
July	115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August	116.9	101.2	106.3	91.5	85.6	106.5	89.8	93.9	103.1	89.3	104.1	77.0	112.3	94.6	100.4	82.8
July 22	115.0	100.9	107.1	89.8	86.1	107.3	90.7	92.9	103.3	89.9	104.6	76.6	112.2	95.5	99.9	82.7
29	115.5	101.0	107.1	90.5	85.9	106.7	90.3	93.8	103.2	89.6	104.3	76.8	112.7	94.9	100.1	82.9
August 5	116.8	101.1	106.7	91.1	85.6	106.4	90.1	93.5	103.2	89.4	104.1	77.0	112.5	94.7	100.3	83.2
12	117.8	101.2	106.4	91.4	85.3	106.2	89.8	93.8	102.8	89.1	103.9	76.9	112.5	94.2	100.5	83.0
19	116.7	101.1	106.2	91.4	85.7	106.6	89.7	94.1	103.1	89.4	104.0	77.1	112.5	94.4	100.4	82.7
26	116.2	101.3	106.1	91.7	85.9	106.9	89.6	94.2	103.5	89.0	104.3	77.1	112.0	94.9	100.3	82.6
September 2	117.5	101.4	105.7	92.0	85.7	106.5	89.2	94.2	103.1	88.9	104.1	76.9	111.9	94.5	100.6	82.7
9	117.2	101.5	106.1	91.5	85.7	106.7	89.4	93.7	103.2	89.0	104.2	76.8	112.0	94.9	100.7	82.6

Real effective exchange rates

Index numbers 1980-82=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	89.5	99.6	103.1	93.1	102.2	103.5	103.5	92.2	100.2	107.6	100.0	102.0	98.7	103.7	96.4	101.3
1981	100.7	100.0	104.7	102.8	100.2	97.4	98.7	101.9	99.1	100.3	97.7	99.1	98.8	99.3	101.2	102.1
1982	109.8	100.4	92.3	104.1	97.6	99.1	97.8	98.9	100.7	92.1	102.4	99.0	102.5	96.9	102.4	96.5
1982																
September	112.3	102.0	88.1	103.2	94.2	99.5	98.2	100.5	100.8	91.0	103.3	101.0	101.0	95.8	98.4	100.0
October	115.2	101.3	85.1	102.8	95.3	99.6	97.3	101.4	100.8	90.1	103.6	100.6	101.5	98.3	98.3	91.0
November	115.6	101.1	87.8	102.7	95.4	99.5	97.8	98.7	100.9	90.3	103.7	99.3	101.4	98.9	99.2	89.0
December	111.9	99.5	94.2	102.4	97.2	100.7	99.1	95.0	102.2	91.0	103.4	91.7	102.9	100.0	99.2	88.0
1983																
January	109.4	100.7	97.6	103.7	97.0	100.5	100.9	91.9	102.3	91.3	104.4	91.2	106.4	100.8	98.7	88.9
February	110.2	101.3	96.8	103.7	98.5	99.7	99.9	90.7	102.5	92.8	103.6	91.5	105.3	100.8	100.0	88.6
March	110.7	102.6	96.5	96.3	97.6	101.2	98.8	89.2	103.8	94.1	103.6	90.4	103.6	101.0	99.3	88.7
April	110.5	103.0	96.1	94.8	96.4	101.1	98.5	93.3	102.6	92.8	101.9	90.6	104.7	100.9	100.3	89.4
May	110.4	103.3	96.8	96.7	95.3	100.4	98.1	96.4	101.8	91.9	101.5	90.5	105.2	100.0	101.4	90.1
June	112.5	103.6	95.2	98.4	95.6	99.5	97.8	97.0	101.2	90.9	101.1	88.8	105.2	98.5	100.8	91.2
July	113.4	104.0	94.9	99.4	96.1	98.9	97.7	96.6	101.0	90.5	100.8	87.6	105.8	97.3	100.8	92.4
August	115.1	104.7	93.7	102.1	96.1	96.1	96.8	97.2	100.4	89.7	100.1	88.2	106.2	96.5	101.2	93.1

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, and Singapore
billions of dollars (rounded to nearest $5 billion), at end of period

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
											Mar
Estimated size											
Gross	315	395	485	595	740	950	1 235	1 525	1 860	2 050	2 070
Liabilities to nonbanks	55	80	90	115	145	190	260	350	460	505	510
Liabilities to central banks	40	60	65	80	100	115	145	150	130	90	90
Liabilities to other banks[a]	220	255	330	400	495	645	830	1 025	1 270	1 455	1 470
Net	160	220	255	320	390	495	590	730	890	960	965
Claims on nonbanks	70	105	130	165	210	265	330	425	530	595	600
Claims on central banks and on banks outside market area[b]	70	95	105	130	150	185	200	230	275	270	265
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	20	25	30	45	60	75	85	95	100
Eurodollars as % of gross liabilities in all Eurocurrencies	74	76	78	80	76	74	72	75	78	79	80

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Eurodollar:											
overnight	19.25	12.87	9.25	8.63	8.63	9.13	8.75	8.88	9.50	8.75	9.38
7-day fixed	19.75	13.00	9.25	8.75	8.63	9.25	8.75	8.88	9.50	9.44	9.50
one month	19.12	13.31	9.13	9.00	8.56	9.44	8.94	9.13	9.50	9.81	9.88
three months	17.55	13.75	9.19	9.25	8.75	9.63	8.88	9.44	9.69	10.19	10.25
six months	16.37	14.81	9.50	9.56	8.88	9.75	9.06	9.63	9.94	10.63	10.63
twelve months	14.87	14.75	9.63	9.75	9.13	9.94	9.25	9.81	10.06	10.75	10.94
Euromark:											
one month	8.87	10.44	5.88	5.63	5.38	4.81	4.88	4.94	4.94	4.81	5.25
three months	8.87	10.50	5.88	5.63	5.25	4.94	5.00	5.06	5.19	5.06	5.50
six months	8.87	10.56	5.94	5.69	5.38	5.13	5.06	5.25	5.50	5.50	5.94
twelve months	8.93	10.25	6.00	5.88	5.50	5.38	5.31	5.69	5.94	5.94	6.44
Euro-Swiss franc:											
one month	6.00	8.87	2.81	2.38	2.88	3.81	4.31	4.75	4.56	4.69	[illegible].19
three months	6.00	9.25	3.25	2.75	3.00	3.88	4.38	4.75	4.63	4.75	4.44
six months	5.75	9.25	3.44	3.38	3.38	3.88	4.38	4.75	4.75	4.88	4.81
twelve months	5.50	8.50	3.44	3.56	3.63	3.94	4.38	4.63	4.69	4.81	4.94
Eurosterling:											
one month	14.75	15.37	10.56	11.50	11.38	10.75	10.25	10.25	9.63	9.56	9.56
three months	14.75	15.69	10.44	11.50	11.25	10.69	10.19	10.25	9.63	9.81	9.75
six months	14.25	15.69	10.31	11.44	13.19	10.63	10.06	10.25	9.88	10.25	10.13
twelve months	14.00	15.37	10.31	11.25	10.75	10.56	10.00	10.31	10.06	10.50	10.50
Euro-French franc:											
one month	11.12	15.75	23.00	16.00	21.50	12.13	12.38	12.50	12.38	12.13	13.00
three months	11.75	17.00	24.00	20.00	23.00	12.31	12.88	13.38	14.94	13.50	15.00
six months	12.25	18.00	22.00	20.00	21.25	13.75	14.38	15.75	16.69	15.25	16.75
twelve months	12.87	18.25	19.75	18.00	18.38	15.00	16.00	17.25	18.00	16.75	16.88
Euroyen:											
one month	9.12	6.12	6.75	6.56	6.69	6.38	6.13	6.31	6.44	6.44	6.69
three months	9.25	6.12	6.75	6.56	6.63	6.38	6.19	6.31	6.50	6.50	6.63
six months	9.62	6.87	6.81	6.50	6.50	6.38	6.19	6.31	6.50	6.56	6.63
twelve months	9.37	6.87	6.81	6.63	6.56	6.44	6.38	6.38	6.50	6.56	6.75

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	*1981*	*1982*[r]	*1983*			*Jan-Aug*	
				Jun[r]	*Jul*	*Aug*	*1983*	*1982*
Industrial countries	**39 100**	**86 022**	**42 775**	**2 112**	**1 716**	**2 385**	**21 838**	**29 128**
Australia	2 475	1 680	4 721	—	388	229	1 898	3 588
Canada	1 743	4 112	3 838	—	—	—	200	2 335
Denmark	1 720	1 661	789	78	—	—	1 586	770
France	1 745	3 912	5 653	740	—	18	1 348	1 352
Greece	1 333	1 039	770	5	250	39	840	750
Ireland	237	1 361	401	—	75	—	616	374
Italy	6 268	6 030	3 657	284	35	121	1 662	2 676
Norway	685	713	2 069	50	—	—	336	1 649
Portugal	745	1 590	1 388	—	—	—	300	1 036
Spain	5 457	3 242	1 849	143	60	198	2 159	1 177
Sweden	1 370	1 867	649	—	—	375	2 725	425
United Kingdom	1 470	747	1 635	182	73	350	953	819
United States	6 719	54 784	6 566	100	719	815	4 187	4 781
Other[a]	7 133	3 284	8 790	530	116	240	3 028	7 396
Developing countries	**35 054**	**45 264**	**41 486**	**3 096**	**1 833**	**2 152**	**27 080**	**32 371**
Non-OPEC countries	24 009	33 394	28 704	1 293	1 204	2 097	21 537	22 440
Argentina	2 506	2 534	1 565	250	—	1 500	1 750	465
Brazil	4 158	5 751	5 716	—	—	—	4 475	3 902
Chile	1 322	2 204	1 194	—	19	—	1 319	885
Colombia	608	1 030	741	—	198	—	298	635
Korea	1 917	2 824	2 923	127	164	169	1 722	2 046
Malaysia	—	1 725	1 909	15	—	—	875	1 797
Mexico	5 971	7 530	7 953	—	—	—	5 100	7 485
Peru	480	1 407	1 069	—	—	—	466	854
Philippines	1 056	1 257	635	—	30	—	715	478
Taiwan	314	928	255	—	—	190	536	30
Other	5 677	6 204	4 744	901	793	238	4 281	3 863
OPEC countries	11 045	11 870	12 782	1 803	629	55	5 543	9 931
Ecuador	1 209	934	815	—	431	—	431	815
Indonesia	1 435	725	1 250	—	—	20	1 166	639
Nigeria	1 330	1 802	2 042	1 600	83	25	1 819	1 635
United Arab Emirates	101	363	93	—	—	—	525	93
Venezuela	6 715	7 559	6 799	—	—	—	237	5 783
Other	255	497	1 783	203	115	10	1 365	966
Communist countries	**2 809**	**1 791**	**765**	**465**	**230**	**9**	**937**	**634**
China	181	370	43	—	10	—	10	—
East Germany	303	470	8	392	—	—	392	—
Hungary	550	550	340	5	170	—	408	260
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	68	50	9	127	374
International organizations[c]	**429**	**302**	**150**	**1 300**	—	—	**1 321**	**150**
TOTAL	**77 392**	**133 379**	**85 176**	**6 973**	**3 779**	**4 546**	**51 176**	**62 283**

a includes multinational organizations *b* includes COMECON institutions *c* includes regional development organizations *p* preliminary
r revised

International bond yields

long-term issues, at or near end of month

	1980	*1981*	*1982*	*1983*							
	Dec	*Dec*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*
U.S. companies:											
U.S. dollar	11.76	12.70	11.28	10.46	10.24	10.09	9.90	10.03	9.98	10.06	n.a.
Swiss franc	7.27	7.30	5.76	5.63	5.72	5.66	5.71	5.88	5.86	5.83	5.84
European companies:											
U.S. dollar	12.42	14.29	12.45	11.60	11.37	11.37	11.17	11.18	11.33	11.48	n.a.
German mark	8.79	9.36	8.17	8.15	7.98	7.49	7.16	n.a.	n.a.	7.69	n.a.
Governments:											
U.S. dollar	11.83	13.59	12.51	12.07	11.25	11.17	11.09	11.22	11.24	11.51	n.a.

*New international bond issues**

new issues in period, in millions of dollars

	1980	*1981*	*1982r*	*1983*			*Jan-Aug*	
				Junr	*Jul*	*Aug*	*1983*	*1982*
By type:								
Eurobonds, total	**23 970**	**31 616**	**50 308**	**4 551**	**3 032**	**2 429**	**32 378**	**36 417**
by category of borrower								
U.S. companies	4 107	6 178	12 596	501	343	95	3 598	9 883
Foreign companies	9 032	12 882	13 231	1 171	1 263	985	11 587	8 709
State enterprises	5 839	7 496	13 481	599	183	900	8 602	10 075
Governments	3 045	2 629	7 624	130	576	155	4 084	5 433
International organizations	1 947	2 431	3 376	2 150	667	294	4 507	2 317
by currency of denomination								
U.S. dollar	16 427	26 830	42 873	3 865	2 075	1 848	25 836	31 739
German mark	3 607	1 277	2 487	450	311	95	3 093	1 566
Dutch guilder	1 043	529	645	—	69	58	452	487
Canadian dollar	279	634	1 181	61	81	114	692	1 038
European composite units	65	309	1 827	81	166	131	1 162	804
Other	2 549	2 037	1 295	94	330	183	1 143	783
Foreign bonds outside the United States, total	**14 521**	**13 817**	**19 879**	**1 728**	**1 412**	**1 375**	**16 330**	**14 953**
by category of borrower								
U.S. companies	307	592	1 971	20	163	167	918	1 747
Foreign companies	3 157	3 384	4 184	652	435	455	5 966	2 884
State enterprises	2 830	3 701	5 429	299	220	393	3 218	4 013
Governments	4 086	2 762	3 494	277	136	133	2 221	2 785
International organizations	4 141	3 378	4 801	480	458	227	4 152	3 861
by currency of denomination								
German mark	4 839	1 310	2 745	294	139	149	2 206	2 166
Swiss franc	7 617	8 285	11 129	1 004	1 015	796	10 254	8 345
Dutch guilder	259	481	957	123	—	33	748	698
Japanese yen	1 088	2 457	3 418	235	229	347	2 545	2 513
Other	718	1 284	1 630	72	29	50	576	1 231
Foreign bonds in the Unites States, total	**3 429**	**7 552**	**5 946**	**100**	**415**	**252**	**3 265**	**4 447**
by category of borrower								
Canadian entities	2 136	4 630	3 180	—	—	2	1 195	2 931
International organizations	550	1 375	1 700	—	—	—	900	1 050
Other	743	1 547	1 066	100	415	250	1 170	466
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**61 518**	**3 538**	**3 082**	**3 368**	**40 904**	**44 969**
Australia	539	991	2 167	256	426	26	1 319	1 470
Austria	1 659	1 557	1 668	125	26	137	1 052	1 524
Canada	3 797	10 648	11 759	67	203	171	4 381	9 817
Denmark	1 125	695	1 019	86	—	150	1 111	821
Finland	392	672	815	100	47	93	700	588
France	2 820	3 156	7 402	226	117	557	5 828	5 557
Italy	904	1 108	2 263	54	41	55	484	1 396
Japan	5 309	6 928	8 213	1 066	954	798	10 213	5 355
Netherlands	1 585	630	865	209	169	25	717	443
New Zealand	293	1 107	1 375	—	—	7	455	738
Norway	892	530	832	19	60	35	364	489
Sweden	3 244	2 050	2 729	102	96	76	2 355	1 676
United Kingdom	1 733	1 408	1 281	—	—	578	1 211	312
United States	5 587	6 770	14 567	521	506	262	4 516	11 630
Developing countries	**2 485**	**4 769**	**4 930**	**211**	**652**	**117**	**1 580**	**3 902**
Non-OPEC countries	1 942	4 338	3 890	194	652	76	1 485	3 074
Brazil	349	60	91	—	—	—	—	73
Korea	68	323	172	101	50	10	405	92
Mexico	544	3 012	1 919	—	—	—	—	1 919
OPEC countries	543	431	1 040	17	—	41	95	828
Venezuela	398	291	385	—	—	—	—	385
Communist countries	**65**	**75**	**65**	—	—	**50**	**75**	**65**
International organizations	**6 638**	**7 163**	**9 677**	**2 630**	**1 125**	**521**	**9 414**	**6 881**
TOTAL	**41 920**	**52 985**	**76 133**	**6 379**	**4 859**	**4 056**	**51 973**	**55 817**

***Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.**

Central bank discount rates

	1979	1980	1981	1982		1983		Current	
	end Dec	end Dec	end Dec	end Sep	end Dec	end Mar	end Jun	Sep 12 1983	effective since
United States	12.00	13.00	12.00	•10.00	8.50	8.50	8.50	8.50	Dec 15, 82
Canada	14.00	17.36	14.66	12.98	10.05	9.42	9.42	9.52	Sep 8, 83
Japan	6.25	7.25	5.50	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	17.00	14.00	14.37	10.00	10.00	10.56	9.50	9.50	Jun 14, 83
Belgium	10.50	12.00	15.00	12.50	11.50	11.00	9.00	9.00	Jun 23, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	0.00	7.50	7.50	7.00	5.00	4.00	4.00	4.00	Mar 16, 83
Italy	15.00	16.50	19.00	18.00	18.00	18.00	17.00	17.00	Apr 11, 83
Netherlands	9.50	8.00	9.00	7.00	5.00	3.50	4.50	5.00	Sep 9, 83
Austria	3.75	6.75	6.75	6.25	4.75	3.75	3.75	3.75	Mar 16, 83
Denmark	11.00	11.00	11.00	11.00	10.00	8.50	7.50	7.50	Apr 21, 83
Finland	8.50	9.25	9.25	8.50	8.50	8.50	8.50	9.50	July 1, 83
Ireland	16.40	12.75	17.15	14.55	14.35	14.35	13.80	13.00	July 1, 83
Norway	9.00	9.00	9.00	9.00	9.00	9.00	9.00	8.00	Jun 6, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.00	12.00	11.00	10.00	10.00	9.00	8.50	8.50	Apr 8, 83
Switzerland	2.00	3.00	6.00	5.00	4.50	4.00	4.00	4.00	Mar 16, 83
Argentina	69.90	87.01	98.50	128.54	128.54	128.54	128.54	128.54	Sep 30, 82
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.30	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	7.00	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	11.00	13.00	14.00	14.00	13.00	13.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	18.90	12.37	8.95	8.68	8.51	8.77	8.80	8.63	8.98	9.37	9.58
Canada	15.61	14.53	10.63	9.75	9.60	9.40	9.41	9.28	9.45	9.31	9.35
Japan	9.49	6.70	6.92	6.64	6.57	6.69	6.30	6.08	6.20	6.39	6.46
Australia	9.51	12.84	11.04	9.84	10.70	10.61	11.15	11.16	10.87	9.84	n.a.
United Kingdom	13.00	9.13	6.70	10.81	10.81	7.50	7.63	6.00	6.63	6.60	6.31
Belgium	9.68	12.78	9.43	9.80	9.97	11.82	9.83	7.45	7.68	7.49	7.61
France	10.87	15.46	12.88	12.71	12.77	12.84	12.55	12.46	12.61	12.40	12.54
Germany	9.13	10.65	6.07	5.91	5.70	5.49	4.93	5.00	5.05	5.04	5.07
Italy	17.50	20.63	19.00	19.00	19.00	19.00	18.00	18.00	17.80	17.75	17.88
Netherlands	8.37	10.67	5.31	5.10	4.96	4.41	5.18	5.22	5.08	5.29	5.77
Austria	11.50	7.50	6.00	5.88	5.88	5.38	4.88	4.38	4.50	5.00	5.00
Finland	12.50	11.30	11.50	11.00	12.00	13.00	13.00	15.00	15.00	15.00	15.00
Ireland	13.31	16.88	14.54	15.38	13.94	17.63	15.25	14.38	13.62	13.75	12.50
Spain	16.74	18.73	20.30	16.60	17.20	17.68	20.38	21.01	20.10	21.05	n.a.
Sweden	11.41	13.82	8.63	4.62	10.55	11.20	11.00	11.00	11.05	11.00	10.15
Switzerland	5.75	3.38	1.25	1.38	1.50	3.13	3.88	3.88	3.00	n.a.	n.a.
Argentina	70.84	84.93	155.32	154.38	159.38	180.22	196.18	162.81	170.43	210.04	106.40
Brazil	62.71	103.74	150.42	119.23	125.22	164.70	266.06	220.06	n.a.	n.a.	n.a.
Hong Kong	14.05	10.75	9.13	7.13	10.40	9.63	10.40	11.38	12.38	7.00	6.81
Korea	14.82	14.40	13.84	13.25	13.30	13.70	13.60	13.40	13.40	12.70	12.70
Philippines	15.70	14.70	16.12	11.43	14.29	14.58	10.93	13.55	13.05	n.a.	n.a.
Singapore	10.23	3.96	11.45	8.22	5.88	6.04	9.96	6.63	5.98	8.08	6.33
South Africa	5.60	12.34	12.90	9.70	9.57	8.25	9.71	9.73	10.91	12.29	13.62
Eurodollars	19.22	12.29	9.15	8.72	8.73	8.86	8.90	8.71	9.07	9.42	9.52

Treasury bill rates

bond-equivalent yields, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	14.87	11.90	8.15	8.23	8.03	8.93	8.34	8.75	9.02	9.50	9.52
Canada	17.01	14.41	9.80	9.58	9.23	9.17	9.12	9.25	9.17	9.24	9.29
Japan	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	12.17	13.27	9.39	11.05	14.95	14.11	11.14	11.83	11.93	10.59	n.a.
United Kingdom	13.45	15.31	9.90	10.58	10.73	10.41	9.75	9.68	9.29	9.40	9.57
Belgium	12.75	16.00	12.25	12.25	12.25	12.00	10.35	10.00	9.50	9.25	9.25
Ireland	12.84	17.35	14.70	15.38	13.76	14.39	13.81	14.01	12.95	13.09	13.01
Italy	16.87	21.36	19.11	19.09	19.09	18.88	18.27	16.65	17.35	n.a.	n.a.
Netherlands	8.00	9.75	5.63	5.38	5.00	4.50	6.50	5.63	4.63	5.38	6.00
Spain	17.20	15.83	16.96	17.06	16.99	16.56	18.11	21.67	21.52	22.53	22.93
Sweden	12.87	9.20	8.18	7.14	7.14	7.13	7.13	7.13	7.12	7.12	7.13
Korea	16.35	16.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Mexico	27.73	33.22	57.44	59.56	60.90	64.24	62.85	63.04	62.36	n.a.	n.a.
New Zealand	11.25	11.25	11.25	11.25	11.25	11.25	12.00	12.00	12.00	7.80	n.a.
Philippines	12.74	13.40	14.53	14.54	14.54	14.55	14.54	14.49	14.00	n.a.	n.a.
Singapore	6.77	3.03	2.74	3.05	3.07	2.59	2.59	2.51	2.61	2.59	2.58
South Africa	6.31	14.55	14.62	12.70	9.79	11.35	11.53	11.81	13.96	14.46	16.19

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	17.62	12.78	8.81	8.29	8.30	9.34	8.56	8.63	9.34	9.57	9.52
Canada	17.50	15.25	9.95	10.00	9.40	9.45	9.45	9.50	9.45	9.40	9.50
Japan	9.80	6.30	6.80	6.51	6.69	6.57	6.20	6.36	6.47	6.59	6.60
Australia	13.00	16.00	10.65	11.30	16.00	16.25	12.90	13.00	13.85	12.10	n.a.
United Kingdom	14.75	15.69	10.50	11.56	11.31	10.69	10.19	10.25	9.75	10.06	9.75
Belgium	13.10	16.00	12.35	12.35	12.25	12.25	10.45	10.00	9.50	9.25	9.25
France	11.56	15.25	12.75	12.63	12.94	12.70	12.31	12.44	12.50	12.13	12.25
Germany	10.20	10.50	6.20	5.90	5.68	5.30	5.18	5.25	5.55	5.50	5.80
Ireland	13.63	18.50	15.75	16.13	13.94	15.25	15.25	14.75	13.63	13.88	13.38
Italy	17.37	21.00	19.00	18.88	19.00	19.00	17.75	17.75	17.50	17.50	17.60
Netherlands	9.37	11.00	5.25	5.00	4.50	4.25	6.00	6.13	5.38	5.69	5.31
Spain	17.40	15.52	16.55	16.53	16.82	15.86	18.91	21.57	20.76	22.48	24.04
Switzerland	7.50	10.12	3.88	2.88	3.25	4.00	4.50	4.75	4.81	4.85	4.44
Hong Kong	17.69	14.18	10.13	8.75	8.50	9.50	10.06	11.50	12.88	9.88	8.94
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	14.25	16.05	16.75	16.25	14.00	14.00	14.00	16.00	16.75	12.75	n.a.
Philippines	15.01	17.61	15.91	15.53	15.90	15.78	14.34	15.57	15.06	n.a.	n.a.
Singapore	14.12	7.81	8.69	7.94	7.06	6.56	7.38	7.56	7.81	7.88	7.38
South Africa	7.12	15.47	15.26	13.33	10.41	12.11	12.16	12.21	14.88	14.94	16.61

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	16.25	12.62	8.25	8.50	8.35	9.15	8.40	8.88	9.18	9.65	9.65
Canada	17.00	15.20	9.85	9.90	9.35	9.40	9.35	9.40	9.35	9.35	9.45
Japan	9.00	6.50	7.00	6.80	6.86	6.98	6.40	6.60	6.67	6.80	n.a.
Australia	12.71	15.65	10.20	10.80	15.07	15.48	12.82	12.68	14.84	12.05	n.a.
United Kingdom	14.87	15.69	10.31	11.63	11.25	10.75	10.19	10.28	n.a.	10.06	9.78
Belgium	12.63	15.50	12.25	12.25	12.25	12.88	10.38	10.13	9.25	9.13	9.25
France	11.25	9.16	8.24	8.24	8.24	8.24	8.24	8.24	8.24	8.24	7.30
Germany	8.00	9.50	6.00	5.25	5.10	4.75	4.75	4.85	4.90	4.90	4.90
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	9.50	11.00	5.38	5.00	4.50	4.25	6.13	6.25	5.50	5.63	5.25
Austria	11.25	9.63	6.25	6.00	6.00	5.50	5.25	4.69	5.00	5.31	5.56
Denmark	10.00	10.00	9.00	9.00	9.00	7.50	6.50	6.50	6.50	6.50	6.50
Finland	5.00	5.00	4.25	4.25	4.25	4.25	4.25	4.25	4.25	5.25	5.25
Ireland	13.63	18.38	15.25	16.00	13.75	15.13	14.75	14.50	13.25	13.50	13.13
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	11.78	12.53	12.23	12.42	11.98	12.30	12.36	12.47	12.28	n.a.
Sweden	9.75	10.25	9.50	8.50	8.50	8.50	8.00	8.00	8.00	8.00	8.00
Switzerland	7.50	8.75	3.00	2.00	2.00	2.75	3.50	3.75	4.25	4.30	n.a.
Argentina	72.00	86.76	103.42	127.75	121.66	121.66	121.66	121.66	108.28	127.75	139.92
Brazil	96.49	110.05	118.26	116.21	117.61	119.29	128.81	137.28	n.a.	n.a.	n.a.
Hong Kong	13.00	12.50	7.50	7.50	7.50	7.50	8.50	11.00	10.50	8.50	8.50
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	26.15	31.81	52.54	59.66	59.90	60.27	60.46	60.35	60.03	n.a.	n.a.
New Zealand	13.50	15.50	16.50	15.25	13.00	12.75	12.75	14.75	16.50	10.00	n.a.
Philippines	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	13.19	7.50	8.25	7.31	6.75	6.19	6.88	7.07	7.01	7.44	6.88
South Africa	7.87	14.75	15.25	13.43	10.63	12.00	12.25	12.35	14.75	14.95	16.62
Venezuela	16.00	14.75	15.50	16.00	16.50	18.00	16.00	15.00	14.00	n.a.	n.a.

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	21.50	15.75	11.50	11.00	10.50	10.50	10.50	10.50	10.50	10.50	11.00
Canada	18.25	16.50	12.50	12.00	11.50	11.50	11.00	11.00	11.00	11.00	11.00
Japan	8.16	6.95	6.28	6.28	6.27	6.27	6.26	6.26	6.30	6.30	6.30
Australia	13.50	15.75	15.00	14.00	14.00	16.00	15.75	15.00	16.00	14.50	n.a.
United Kingdom	15.00	14.50	10.00	11.00	11.00	10.50	10.00	10.00	9.50	9.50	9.50
Belgium	15.75	18.00	15.50	15.50	15.50	15.00	14.00	14.00	13.25	12.50	12.50
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	8.75	8.75	7.75	7.75	7.75	7.75	7.75	7.75
Italy	20.50	22.50	20.75	20.75	20.00	20.00	19.50	18.75	18.75	18.75	18.75
Netherlands	10.75	12.00	6.25	6.25	6.00	5.00	5.75	6.25	6.25	6.25	6.75
Austria	12.50	13.50	11.75	11.00	11.00	11.00	9.75	9.75	9.25	9.25	9.25
Denmark	13.75	15.00	14.00	14.00	14.00	12.00	11.00	11.00	10.50	10.50	10.50
Finland	9.83	9.84	8.95	8.99	8.97	8.95	8.97	9.00	9.07	10.07	n.a.
Ireland	14.50	17.25	16.50	16.50	16.50	17.50	16.25	16.25	15.00	15.00	15.00
Norway	12.50	13.75	14.50	14.50	14.50	14.50	14.50	14.50	14.50	14.00	14.00
Spain	18.50	17.04	19.00	18.34	18.48	17.65	19.27	22.40	22.73	23.47	25.19
Sweden	11.75	13.50	12.50	11.50	11.50	11.50	11.00	11.00	11.00	11.00	11.00
Switzerland	5.75	8.00	6.00	6.00	6.00	5.50	5.50	5.50	5.50	5.50	5.50
Argentina	77.00	92.60	109.50	139.92	133.83	133.83	175.00	170.00	184.00	240.00	152.08
Brazil	96.45	138.09	166.49	162.56	181.18	190.83	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	17.00	16.00	10.50	10.50	10.50	10.50	11.50	11.50	13.50	11.50	11.50
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	24.25	31.81	46.12	50.29	52.12	54.24	54.16	n.a.	n.a.	n.a.	n.a.
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	13.60	11.83	9.33	9.53	9.25	9.10	9.03	9.03	8.88	9.00	9.00
South Africa	9.50	17.00	18.00	17.00	16.00	14.00	14.00	14.00	16.00	16.00	18.00
Venezuela	15.00	15.50	17.00	17.50	18.00	17.50	17.50	17.00	17.00	17.00	n.a.

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	11.46	14.33	10.61	10.96	10.57	10.85	10.52	10.91	11.20	11.95	11.77
Canada	12.69	15.27	11.69	12.28	11.80	11.70	11.18	11.30	11.56	12.03	12.34
Japan	9.04	8.32	7.76	7.89	8.07	7.80	7.77	7.80	7.78	7.87	7.80
Australia	13.00	15.00	13.00	12.75	14.75	15.00	13.85	14.80	15.10	15.00	n a.
United Kingdom	13.05	15.02	10.62	11.56	10.88	10.52	10.28	10.10	10.12	10.71	10.65
Belgium	13.04	13.99	12.66	12.48	12.60	12.49	11.59	11.63	11.53	11.42	11.46
France	14.31	16.44	15.40	14.99	14.25	14.65	14.55	14.55	14.52	14.04	13.06
Germany	9.19	9.71	7.90	7.93	7.71	7.61	7.74	8.09	8.11	8.27	8.55
Italy	16.23	21.39	19.62	19.33	19.24	18.76	18.21	18.29	n.a.	n.a.	n.a.
Netherlands	10.48	11.28	8.16	8.24	8.06	8.19	8.83	9.30	9.00	9.08	9.03
Austria	9.62	10.37	8.81	8.32	8.24	8.18	8.09	8.07	8.14	8.18	n.a.
Denmark	19.98	20.91	20.14	18.55	15.89	15.16	14.27	14.34	15.54	15.63	14.97
Finland	10.42	10.98	10.64	10.58	10.70	10.59	10.58	10.69	10.55	10.58	11.20
Ireland	15.63	16.28	14.54	14.98	14.26	13.96	13.62	13.51	13.61	13.81	13.60
Norway	10.44	12.37	13.32	12.75	13.00	13.00	12.75	12.75	12.50	12.50	12.50
Spain	16.15	16.20	15.92	15.81	15.99	16.47	17.05	17.31	17.74	n.a.	n.a.
Sweden	12.61	12.80	13.01	13.10	12.83	12.59	12.22	12.14	12.17	12.85	11.84
Switzerland	4.63	5.40	4.22	4.22	4.23	4.46	4.42	4.51	4.59	n.a.	n.a.
New Zealand	12.99	12.55	12.84	12.77	12.95	12.69	13.95	14.00	n.a.	n.a.	n.a.
Philippines	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	11.81	13.62	11.31	10.58	11.40	12.17	12.26	12.85	14.15	13.27	13.16
Venezuela	7.39	12.50	15.00	15.00	15.00	15.50	15.75	15.75	15.75	n.a.	n.a.

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	13.00	15.50	11.75	11.88	11.53	11.63	11.00	11.75	11.75	12.75	12.50
Canada	13.62	16.48	13.05	13.54	12.99	12.92	12.29	12.59	12.47	13.09	n.a.
Japan	8.60	7.70	7.55	7.25	7.26	7.39	7.37	7.16	7.30	7.34	n.a.
Australia	14.25	16.50	15.00	15.00	16.00	16.25	16.00	16.00	16.00	15.75	n.a.
United Kingdom	14.21	16.55	12.34	12.85	12.69	12.34	12.14	12.12	11.89	12.34	12.27
France	15.23	17.33	15.91	15.64	15.12	15.03	14.87	14.85	14.86	14.76	14.48
Germany	9.50	10.50	8.20	7.90	7.70	7.60	7.30	7.40	7.90	8.00	n.a.
Netherlands	10.71	11.03	7.80	8.01	7.92	7.86	8.65	8.91	8.79	8.75	8.79
Norway	11.24	13.36	14.13	13.75	13.75	13.75	13.50	13.50	13.25	13.25	12.25
Spain	14.82	14.76	17.10	16.49	16.72	17.02	17.22	16.77	16.86	18.00	n.a.
Sweden	11.95	12.94	13.37	13.39	13.06	13.34	12.85	12.89	12.79	12.85	12.77
Switzerland	5.63	6.60	5.92	5.89	5.88	5.93	5.98	5.94	6.06	6.10	6.21
Korea	28.20	27.00	15.90	15.10	15.00	14.40	14.00	13.90	13.90	13.90	13.90
Venezuela	16.15	17.00	18.00	18.00	18.00	18.00	18.25	18.00	18.00	n.a.	n.a.

Key to data in tables

I. International markets

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

Categories of borrower

U.S. companies include both parent companies and their financing affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Country of borrower

The country of the borrower is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

International bond yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield.

The yield indices are simple arithmetic averages of end-of-month secondary market yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers. Occasionally the individual issues in each category are changed.

The number of issues represented in each of the indices is as follows:

Long-Term, U.S. companies, U.S. dollar — —ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc — four foreign bond issues.

Long-term, European companies, U.S. dollar — ten Euro-bond issues.

Long-term, European companies, German mark — ten Euro-bond issues.

Long-term, governments, U.S. dollar — six Euro-bond issues (governments of Italy, Denmark, and France).

Euro-currency deposit rates

All data are prime banks' bid rates for deposits in London. Offer rates commonly used as a basis for Euro-dollar lending are generally .125% above bid rates.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — overnight financing of Treasury bills (LTN) until November 1978. New series as of December 1979, rates paid for federal funds.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Euro-dollars — prime banks' bid rate for overnight money.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit.

Sweden — new issues of 3-month Treasury bills.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month negotiable certificates of deposit of investment banks net of taxes.

Canada — 3-month time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Key to data in tables — continued

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 3-month time deposits until April 1979. New series as of May 1979, 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month time deposits. Higher rates may be negotiated for 12-month or more time deposits in large amounts.

Philippines — 3-month time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — deposits at 6-months' notice.

Switzerland — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for large amounts until December 1978. New series as of January 1979, similar rate for domestic depositors only.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — weighted average investment bank lending rate for multinational companies including tax on financial obligations (IOF).

Canada — prime rate.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .333% prior to July 1978, .25% thereafter, per quarter on the total line of credit.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — maximum legal rate for discounting commercial bills plus a commission of 1% per annum until December 1979. New series as of January 1980, preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — actual interest rate on 3-month loans to prime industrial borrowers.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

United Kingdom — clearing bank base lending rate.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for prime borrowers until December 1978. New series as of January 1979, similar rate for domestic prime borrowers only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 10% government bond maturing 1983 until December 1977; 10% government bonds maturing 1986 until September 1980. New series as of October 1980, 12% serial bonds maturing 2001.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

South Africa — 25-year government bonds.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Domestic corporate bond yields

Australia — long-term secured debentures, indicated by Australian United Corporation.

Canada — McLeod, Young, Weir Co. Ltd., average yield on ten industrial bonds.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — FAZ 6% industrial bond average until September 1978. New series as of October 1978, Bundesbank average yield on industrial bonds

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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World Financial Markets

Morgan Guaranty Trust Company of New York

October 1983

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Table 1

Exchange rate changes

	Oct 25 1983 (units per $)	*% change since Aug 11, 1983**
Japanese yen	232	+5.9
British pound	1.50**	+1.3
German mark	2.60	+4.9
French franc	7.94	+3.5
Swiss franc	2.11	+3.8
Dutch guilder	2.92	+4.4
Canadian dollar	1.23	+0.5
Dollar effective exchange rate index (1980-82=100)		
Nominal	114.70	—3.0
Real	112.10	

*Positive number indicates appreciation.
**Dollars per unit.

The U.S. trade deficit and the dollar

Although the dollar has weakened from its early-August peak, by about 3% on average as of late-October (see Table 1), it still stands high in real terms: 12% above its average 1980-82 level and 23% above the 1973-79 average (see Chart 1).

U.S. economic policies and the dollar's exchange rate have engendered worldwide controversy throughout the postwar period. In the 1950s the issue was dollar shortage. In the 1960s it was dollar glut. Foreign criticism in the 1970s stressed the inflationary bias in U.S. policies, profligate U.S. oil consumption, and benign neglect or devaluationist attitudes toward the dollar. Later, following the shift in U.S. priorities, European critics viewed dollar strength both as an impediment to lower interest rates and as a particular burden on debt-ridden developing countries.

The vigor of U.S. recovery this year has blunted *foreign* complaints, but there now is growing *domestic* criticism of the strong dollar. Dollar strength has been blamed for record U.S. trade deficits and for deindustrialization of the American economy, with loss of manufacturing jobs. It is further said to threaten economic expansion and to encourage protectionism.

According to some of the critics, the remedy lies in a basic shift in U.S. policies, including a 25% depreciation of the dollar to strengthen the trade balance by up to $100 billion.

While the dollar is somewhat overvalued from a long-term point of view — especially vis-à-vis the Japanese yen — this article points out that many factors besides currency strength determine the trade balance and international competitiveness. Amid continuing worldwide economic difficulties and structural adjustments, moreover, a large trade deficit is the only responsible posture for the United States to assume. To bring the dollar sharply down could be considered by other countries as an aggressive, competitive devaluation, no better than indiscriminate protectionism. It would certainly be inflationary for the United States itself.

Instead, primary reliance should be placed on the self-correcting powers of market forces. High interest rates and "safe haven" motives have drawn funds to the United States, bidding up the dollar and dictating the trend into current account deficit. The deficit helps spur economic recovery else-

Chart 1

Effective dollar exchange rates
monthly averages
indices, 1980-82 = 100

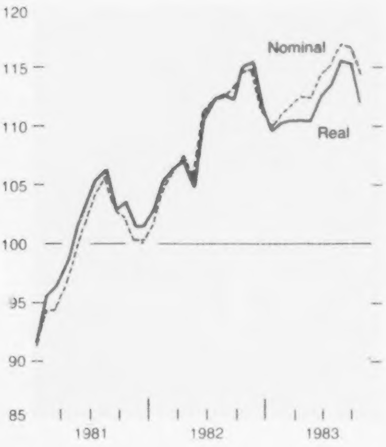
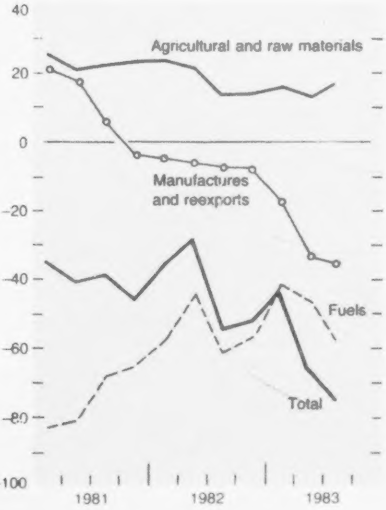


Chart 2

U.S. merchandise trade
FAS/CIF customs basis
seasonally adjusted at annual rates
in billions of dollars



where in the world, which in turn contributes to the rebuilding of confidence worldwide. This is much needed, not only in Japan and Europe, but also in the newly industrializing countries. Recovery of growth and confidence abroad will shift asset preferences, and in due course bring the dollar lower. In response, export markets will quicken and the U.S. trade deficit will narrow. This would be a more responsible approach to the trade deficit than a sharp reduction of U.S. imports through dollar devaluation.

U.S. current account deterioration: the record

The United States this year will likely record a merchandise trade deficit of about $70 billion on the customs/CIF reporting basis, roughly $30 billion more than in 1982. For the first three months of 1983 the deficit averaged a $3.5 billion monthly rate, but it quickly grew thereafter, soaring above $7 billion in the August figures (see Chart 2). At the August pace, the trade deficit corresponds to an annual rate of current account deficit of well over $50 billion. In the first eight months of 1983, however, the deficit averaged an annual rate of about $31 billion. As recently as 1981 the current account posted a $5 billion surplus. Thus, there has already been a cumulative deterioration of nearly $40 billion in just two years, representing over 1% of U.S. GNP, with more to come if recent trends continue.

Deterioration in net U.S. goods and services trade has been widespread. Comparing 1983 year-to-date figures to the 1981 results (see Table 2), the U.S. surplus in agricultural and other raw materials has weakened by $8 billion at an annual rate, while net invisibles earnings have slumped $12 billion — primarily through a downturn in net direct investment income. Until recently, however, these shifts were fully offset by a major reduction in net U.S. petroleum and fuel imports. Essentially, the entire switch in the net U.S. current account position can therefore be viewed as a shift in the balance on manufactured goods. On the CIF valuation, this was transformed from an $11 billion surplus in 1981 to an annual-rate deficit of $29 billion in the first eight months of 1983. The August annual-rate deficit was as much as $42 billion.

So far this year total U.S. merchandise exports are 15% below their 1981 performance, although fractionally ahead of their end-1982 trough. Export prices for agricultural goods were off 11% from 1981 levels and volume also was down. For manufactures exports, by contrast, prices have continued to rise (albeit much more slowly than two years ago) so that their 15% value decline corresponds to a 21% decline in volume terms. On average, a billion dollars of U.S. exports support 25,000 jobs in the domestic economy. On this basis American jobs lost by the falloff in U.S. exports since 1981 approach one million, equivalent to an extra percentage point in the unemployment rate. Since 1981 the volume of U.S. manufactures imports has risen 12% on a year-to-date reading. Domestic manufacturing output was unchanged. Compared with a 16% recovery in domestic production, imports this summer were at least 20% above their level at the start of the U.S. economic upturn at the end of 1982.

Sources of deterioration

Dollar strength is widely identified as the root cause of U.S. trade deterioration. Impaired price and cost

Table 2

U.S. trade and current accounts

billions of dollars
seasonally adjusted annual rates

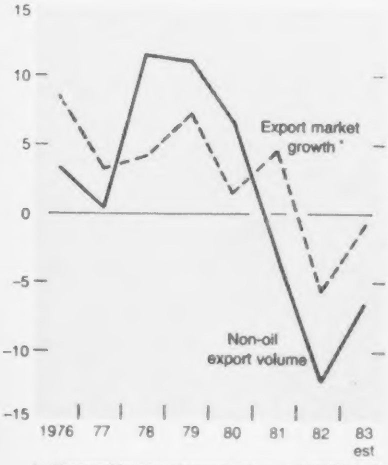
	1981	1982	1983 Jan-Aug	1983	1984
Customs data, CIF valuation					
Merchandise trade balance	—40	—43	—61	—70	—100
Agricultural and raw materials	23	19	15	17	20
Fuels	—74	—55	—48	—50	—60
Manufactures	11	—7	—28	—37	—60
BOP basis*					
Merchandise exports	237	211	199	203	220
Merchandise imports	—265	—247	—251	—263	—310
Trade balance	—28	—36	—52	—60	—90
Net services and transfers	33	25	21	22	30
Direct investment income	25	18	14	18	24
Other investment income	8	9	9	9	10
Military	—1	0	1	0	0
Travel	—1	—3	—5	—6	—6
Other services	8	9	9	9	10
Transfers	—7	—8	—7	—8	—8
Current account balance	5	—11	—31	—38	—60

*1983 January-August figures are estimates based on customs trade and first-half invisibles data.

Chart 3

U.S. non-oil export volume and export market growth

percent change from previous year



* Measured by non-oil import volumes of OECD and developing countries weighted by U.S. manufactures exports in 1980.

competitiveness has handicapped U.S. exporters and import-competing industries. Since the low points of 1978-79 the dollar's real value has escalated 60% against the German mark and more than 50% against the yen. Gauged by wholesale prices of manufactures, the dollar's average real appreciation vis-à-vis industrial competitors over the past five years has been some 34%. Relative unit labor costs in U.S. manufacturing have risen even more. Yet, the U.S. share in all manufactures exports by the leading industrial countries slipped very little in value terms through the beginning of 1983. Volume data convey a less robust picture, however. As shown in Chart 3, U.S. non-oil export shipments fell 6%-8% short of foreign market growth in 1981 and 1982. Further, but more moderate, erosion of export market share is envisaged both this year and next.

Careful examination of the record shows, however, that the trade deficit does not come solely from unwarranted strength of the dollar or a malfunctioning exchange rate system. While the impact of dollar strength cannot be isolated with precision, clearly a combination of forces is at work. It involves not only relative price and income trends but also — and perhaps most significantly — the trade-shrinking consequences of the LDC debt crisis.

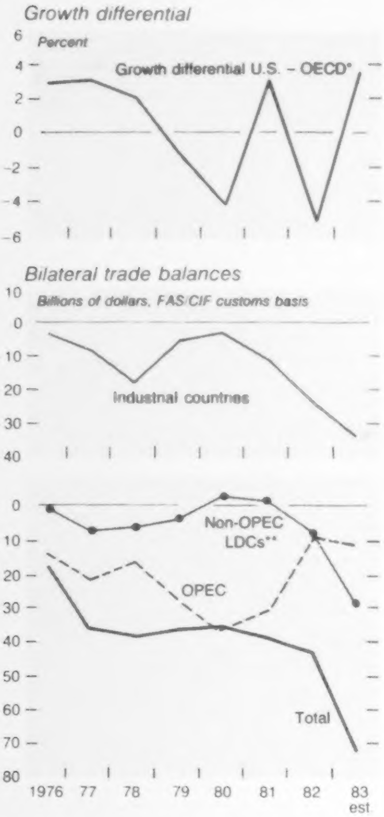
Income effects stem from the vigorous rebound in the United States, relative to a sluggish pace of OECD recovery outside North America. The Administration foresees U.S. real GNP growth this year of 6%, fourth quarter over fourth quarter. This outlook is conservative; the impression of abrupt slowing provided by some July-August statistics has not been sustained by the most recent indicators. For 1984, quarterly GNP gains of 4%-5% seem probable. Few analysts visualize a pronounced slowdown before 1985. On a calendar-year comparison, the U.S. economy appears on course for a 3½% GNP gain this year, followed by almost 5% for 1984.

Among OECD partners, only Canada is close to matching the U.S. rebound. Japan's expansion has been held back by restrictive policies, despite its growing current account surplus. And there is little optimism about Europe's immediate prospects. Moderate growth in Germany and the United Kingdom, founded on domestic sources, is proceeding alongside recessions or subdued activity elsewhere in Europe.

Thus, there exists a substantial real growth differential between the United States and its OECD partners, a gap that is unlikely to be closed until well into 1984 and perhaps not before 1985. As Chart 4 shows, a positive growth differential

Chart 4

U.S. – OECD growth differential and the U.S. trade deficit



* Growth differential is measured by percent change in U.S. industrial production relative to U.S. trade-weighted industrial production in other OECD countries.

** Includes Socialist countries.

generally widens the U.S. trade deficit with other industrial countries, while a negative gap narrows that deficit. The clear exception was 1982, when the deficit increased even while U.S. activity fell substantially relative to other OECD countries. The impact of dollar strength seems to have been felt forcefully in 1982. The 1983 figures are more consistent with the growth gap interpretation.

The trade balance effects of the growth gap are evident at both the aggregate and bilateral levels. Comparing figures for January-August 1983 with the 1981 outcome, it is noteworthy that the U.S. bilateral deficit with Japan has expanded only $3 billion. At the same time, though, it is running now at a high annual rate of $21 billion on the CIF valuation (see Table 3). The U.S. deficit vis-à-vis Canada, its largest trading partner, has widened $7 billion. But the U.S. surplus with Western Europe has declined by over $10 billion – indeed, it has been wiped out. Besides dollar strength, this reflects economic weakness in Europe and its reduced demand for agricultural imports because of rising domestic farm output and protectionism.

Fully as important as the OECD growth gap – yet poorly recognized within the United States – are the consequences of the LDC debt crisis for U.S. trade and employment. Inability to service debts has deprived many LDCs of access to credit, forcing them to cut back imports and hurting U.S. exports. Relative to the 1981 position, the entire deterioration in the 1983 year-to-date U.S. merchandise balance – $21 billion – is paralleled in the trade balance with non-OPEC developing countries and the Eastern bloc. The incidence of deterioration correlates with credit difficulties. The U.S. bilateral balance with Latin America has worsened by $19 billion and with the Eastern bloc by $3 billion. Declines in U.S. exports to both these areas exceed 40%.

U.S. exporters are not the only ones hurt by Latin American developments. First-half 1983 data show that other industrial-country exporters have experienced similar declines: Japan, 44%; Germany, 33%; the United Kingdom, 47%. Thus, it is not the dollar's rise that has precipitated the collapse of U.S. exports to Latin America, but rather the dearth of new credit and the shortage of foreign exchange in the region. Much the same is true of the Eastern bloc, with the added factors of East-West tensions and lessened reliance on U.S. farm exports; dollar strength plays little part. Where credit problems have been less pressing, as with most Asian LDCs, U.S. exports have fared better: in contrast to the experience with Europe and Latin America, earnings from U.S. sales to East and Southeast Asian LDCs have actually risen since 1981. Nonetheless, the United States is now in quickly rising deficit with these countries, as they claim an expanding share of recovering U.S. import needs.

Outlook and financing

The U.S. current account deficit, already well over $50 billion at an annual rate, is likely to be still larger next year. The projections for 1984 presented in Table 2 illustrate the possibilities.

Total merchandise exports may rise about 10% next year. This summer's drought in the United States has driven agricultural prices up close to average 1981 levels. They now stand 12% above their lows twelve months ago. Price gains should handily outweigh a reduction in the volume of sales due to moderate Soviet needs and ever-expanding EEC surpluses. Nonagri-

Table 3

U.S. trade balances by area

customs data, CIF valuation
billions of dollars
seasonally adjusted annual rates

	1981	*1982*	*1983 Jan-Aug*
*Industrial countries**	—11	—25	—32
Canada	—7	—13	—14
Japan	—18	—19	—21
Western Europe	11	5	1
Developing countries	—33	—21	—30
*OPEC***	—30	—10	—7
*Non-OPEC***	—3	—11	—23
Latin America	—1	—10	—20
Mexico	4	—4	—7
*Other***	—2	—1	—3
Socialist countries	4	3	1
Total	—40	—43	—61

*Includes unallocated and statistical discrepancy.
**Not seasonally adjusted.

Table 4

U.S. oil demand and supply

millions of barrels per day

	1982	*1983*	*1984*
Consumption	15.3	15.1	15.5
Exports	0.8	0.8	0.9
Change in inventories	—0.1	—0.2	0.2
Total demand	16.0	15.7	16.6
Domestic supply	10.9	10.9	10.9
Gross imports (DOE basis)	5.1	4.8	5.7
*Gross imports (BOP basis)**			
Volume	5.3	5.0	5.9
Average price ($ per barrel)	31.9	29.0	29.0
Value ($ billion)	61.2	54.0	63.0

*Figures on the balance of payments basis include imports through the Virgin Islands excluded from Department of Energy data.

cultural exports are projected to do better in volume terms, rising by perhaps 5%. After declining two years in a row, U.S. export markets will be expanding, so that loss of market share due to dollar strength will not preclude some gain in U.S. export volume.

The vigor of U.S. merchandise imports, with a 17% rise projected for 1984, is primarily a function of the robust domestic economy. U.S. oil consumption is already edging higher, for the first time since 1979, although full-year 1983 consumption will still fall short of the 1982 level (see Table 4). Next year may bring a rise of 2%-3%. Coupled with a 400,000 bpd swing into positive commercial stockpiling, this leads to a 17% projected rise in U.S. oil import costs.

Nonpetroleum imports also could jump 17% in 1984. Their volume increase, about 10%, represents a multiplier of 1.5 over the expected rise in domestic demand. Some econometric models estimate a higher multiplier. But despite the dollar's rise there is little evidence of increasing import penetration in most sectors of the domestic economy — the result, in large part, of protectionist restraints already in place and the absence of rival domestic production in many activities.

Net direct investment income should advance strongly in 1984. Profits will increase as global economic recovery gathers pace and will benefit from translation gains if the dollar weakens. Altogether, this year's probable U.S. current account deficit of $40 billion will surely rise in 1984. It may be held not much above $60 billion for the full year-end. But sharp depreciation of the dollar would worsen the terms of trade, and widen the deficit for a time. Obviously also, the timing and strength of recovery abroad, especially in LDCs, is crucial to the outcome. The much higher deficit projection of $80 billion, common in official circles, is evidently based on a pessimistic view.

Whether at this year's $40 billion level or at next year's $60 billion plus, the current account deficit raises financing questions. Up to a point the questions are misdirected, because the reported U.S. current account deficit is exaggerated. Last year, global inconsistency among nationally reported current accounts showed deficits as exceeding surpluses by over $100 billion. The discrepancy arises mostly in service transactions. Since the United States alone accounts for more than 20% of recorded international service receipts, the global discrepancy suggests substantial exaggeration in the official measure of the U.S. current account deficit — possibly by $20 billion (see *World Financial Markets*, May 1983). Still, this measurement question affects the level of the reported deficit more than its trend. There can be no real doubt that this year's trend is one of severe deterioration into very sizable deficit.

How will the deficit be financed? For the past three years, confidence factors, the shift to positive real interest rates on dollar assets, and the exchange rate appreciation of the dollar itself have enhanced the attraction of the United States for both foreign and domestic asset holders. Capital inflows have mushroomed, but in large measure through channels that escape reporting. Thus in 1982 net unrecorded flows — the errors and omissions item deduced as the residual balancing figure in the payments accounts — were positive by an extraordinary $40 billion. To a significant extent these unrecorded inflows were attributable to capital flight from Latin America and elsewhere (see Table 5).

In 1983 there are signs of change. In the second quarter, errors and

Table 5

U.S. current account financing

billions of dollars

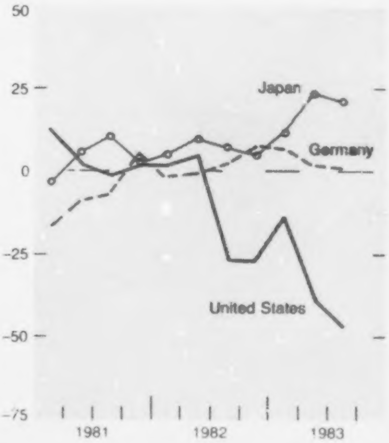
	1981	*1982*	*1983*
Current account	5	—11	—38
U.S. government capital	—10	—11	—8
Private capital	—27	—22	17
of which:			
Direct investment	12	13	5
Other nonbank	0	3	—3
*Bank-reported flows**	—39	—38	15
*Foreign official capital**	5	3	4
Errors and omissions	24	41	25

*Changes in bank-reported liabilities to foreign official institutions are included in official capital flows.

Chart 5

Current account balances

seasonally adjusted at annual rates in billions of dollars



omissions inflows staged a miraculous near-disappearance. However, it is too soon to conclude that the capital flight phenomenon is over. While this may be the case with, say, Mexico, confidence in Latin America remains fragile, and the world has other trouble spots, too. Nonetheless, it seems improbable that net capital inflows into the United States by the unrecorded routes will climb so much in the year ahead as to cover a major fraction of the increased financing need. Net securities purchases could provide some portion. But net direct investment inflows do not promise much. Although net direct investment in the United States will be positive this year, foreign economic recovery in 1984 could revive the faded enthusiasm of U.S. business for overseas investment.

Prospective financing sources for the U.S. external deficit essentially reduce to two: foreign official exchange market intervention and the international banking system. It is quite possible that the dollar will meet downward exchange market pressure in the year ahead that will prompt intervention. Few central banks would wish to see the dollar drop in disorderly fashion. Some would not welcome substantial dollar depreciation at all, since a strong dollar offers attractive export opportunities.

Capital inflows via the banks are likely to shoulder the major role in meeting the U.S. financing need. True, on a net basis, bank capital flows have been large and negative in most past years. But in the second quarter this year they turned strongly positive, and only partly because of reduced lending to LDCs. There is no real obstacle to sustained and growing capital inflows through the banks, with interest rate differentials the driving force.

For some time now Council of Economic Advisers Chairman Feldstein has pointed to a connection between the U.S. budget deficit, a growing external deficit, and the supporting function of positive interest rate differentials in attracting net capital inflows to the United States. Until mid-1983, however, the underlying current account balance was not in deficit. Capital inflows could not have been positive on a net basis. Only more recently, with the current account clearly in the red, are net capital inflows required on a significant scale.

Will interest rate differentials then elicit the needed financing? While the U.S. money supply numbers have recently returned within their target ranges — to some, a signal for Federal Reserve easing — there are no other domestic indications for a shift in Fed policy. The U.S. economy is displaying strong upward momentum. Thanks to excellent corporate cash flow, there is no hint of any substandard contribution from business equipment investment. Inflation generally remains subdued, but the measured rate has been depressed by temporary factors and will gradually move up to about 5%. The food price outlook gives some anxiety. And the Federal Reserve is alert for signs of resurgence in wage settlements. In all, the Fed has little domestic reason to nudge interest rates lower, while the natural forces of economic recovery will make for some modest upward pressures on rates, especially in the second half of 1984.

By contrast, several foreign monetary authorities have growing scope and inclination toward lower domestic interest rates, now that the risks of adverse currency market reactions are lessening. Lagging domestic demand in Japan, particularly investment, together with a strengthening yen and a large current account surplus (see Chart 5), made a convincing case for the recent cut in Japan's discount rate. This is an important element in the economic stimulus package Japan has announced in time for President Reagan's November visit. In Germany there is growing realization that foreign demand is lagging below expectations and that domestic demand will have to be encouraged. With the government committed to fiscal tightening, the Bundesbank may have to concede some monetary relaxation.

Thus national policy considerations do not point to a narrowing of the nominal interest rate differential in favor of the dollar. If anything, they point to some widening. Since U.S. inflation expectations are edging upward, a widening of the nominal differential may be required to hold the differential in real terms sufficiently attractive. Funds drawn to the United States will mitigate the acute downward pressures on the dollar that the current account deficit might otherwise imply.

Reflections

Some critics consider the large U.S. current account deficit conclusive proof of the folly of an overly restrictive U.S. monetary posture coupled with fiscal profligacy. Their remedy: a decisive shift in the fiscal-monetary mix and a 25% depreciation of the dollar. Although the role of large U.S. budget deficits in spurring this year's recovery is increasingly recognized, opinion is virtually unanimous about the need for medium-term fiscal correction. Depreciation, however, is quite another matter. Its proponents advertise depreciation of the dollar as one key to halting U.S. industrial decline. This is questionable.

First, in the present phase of the world economic cycle, sizable U.S. current account deficits are actually constructive. If the current deficit widens to the forecast $60 billion in 1984, then, relative to the position just two years ago, the United States will be providing to its trade partners a stimulus equivalent to more than ½% of rest-of-world GNP. Such stimulus to wider world recovery is sorely needed. Recovery in Japan and Europe is still being retarded by domestic inhibitions concerning the financial implications of fiscal reflation. Yet government inhibitions about domestic stimulus are rarely paralleled by any worries about external stimulus, as is provided by rising U.S. import demand. Rather than finance domestic spending, foreign governments are counting on adjustment via export recovery.

Equally important is the U.S. locomotive effect upon developing countries experiencing credit difficulties and extreme cutbacks in domestic growth. U.S. import demand has boosted many commodity prices and, by providing a vigorous market for LDC exports, also represents a major installment on the industrial-country contribution toward resolving the global debt problem. To pursue balance or surplus on the U.S. current account at this time would seriously aggravate international debt troubles.

Second, it is wrong to claim that the rising trade deficit imperils U.S. recovery. Overall U.S. performance does not depend critically on net exports. True, in accounting terms, the downturn in U.S. net exports during the recent recession contributed more than a third of the overall decrease in GNP, while an 8% annual rate of growth in U.S. domestic demand since the cyclical trough has led to only a 6% rate of advance in GNP. But GNP performance would not necessarily strengthen if net exports were to rise. The Federal Reserve aims at a desired path for nominal incomes and aggregate demand. With that constraint, a strengthening in net exports can be accommodated only by parallel weakening in domestic demand and by higher interest rates. The behavior of net exports relative to domestic demand does, however, affect the fortunes of tradable-goods industries vis-à-vis activities sheltered from international competition.

Third, dollar strength poses an adjustment challenge for many manufacturing firms, especially to those that have inherited inflated cost structures from the 1970s. When the currency was weak, excessive costs could be more readily passed on to consumers. Similarly, dollar weakness mitigated the adverse effects of lagging U.S. productivity on bottom-line business profitability. But the 1970s experience with a weak dollar culminated in disruptive inflation and deferred structural changes that are the foundation for rising living standards.

Currency strength, aside from its benefits in curbing inflation, accelerates industrial change, redoubles the imperatives for productivity improvement, and helps focus the search for international competitiveness on *microeconomic* improvements. In the long run, these may be as important as the *macroeconomic* posture and the exchange rate. The recently appointed President's Commission on Industrial Competitiveness can play a useful role in identifying national priorities. Much needs to be done, for example, in the areas of education and human resource development; in improving financing arrangements for productive research; and in fostering the availability of venture capital. On the international front, the development of U.S. trading companies could provide a more dynamic mechanism for export sales and help shape a more positive domestic approach to world markets. And, given their determining role in many export deals, the terms and availability of export credits, from both official and private sources, warrant fresh attention. Means also must be found to ensure that trade embargoes are not initiated without full consideration of their short- and long-term consequences. Too often trade embargoes have been counterproductive or ineffectual, serving only to divert business from U.S. firms to alternate suppliers while detracting from the image of the United States as a dependable partner.

Fourth, the notion that correct currency values can be identified, as proponents of dollar devaluation assert, rests on false premises. There is nothing in theory or practical experience to substantiate the contention that fundamental balance-of-payments equilibrium for the United States requires balance or surplus on current account, or that the exchange rate should be managed to that end. There may be misgivings as to the rightness of the world's wealthiest nation drawing net capital inflows from abroad. But such inflows do not necessarily constitute wasteful use of foreign savings, since the preferences and investment decisions of capital holders cannot be judged inherently suspect and irrational.

Moreover, as noted earlier, dollar strength is only one of many contributors to the U.S. trade deficit. There is no way to isolate its role and thereby to gauge with confidence its present degree of overvaluation. True, if current account balance is the target, then on the assumptions that the U.S. economy and the world at large have undergone no significant structural change during the past decade, and that macroeconomic objectives are similarly timeless, econometric estimates can be made to point to an asserted 25% dollar overvaluation.

But these estimates rest on questionable cyclical adjustments and weak statistics – for example, comparative price data attuned to a global industrial structure that no longer exists. The fact is that, far from being negligible, structural change is pervasive. Moreover, policy priorities are no longer what they were in the 1970s. Large and protracted shifts in real exchange rates are a manifestation of the sweeping global adjustments made necessary by the priority that most nations now share for achieving sustained noninflationary growth. Thus "objective" criteria for gauging currency equilibrium are anything but solid in practice.

Despite the difficulties, some still seek to erect a new international structure of "target zones" to ensure that exchange rates will conform more closely to objective values than under the present system of managed floating. If the dollar is overvalued, then some other currencies must be undervalued. But it would be hard these days to persuade, say, European industrialists that their currencies should rise significantly. German exporters, for example, have not reaped any great bonanza from too low a mark. The German current account is only slightly in surplus. Thus, if formalized, target zones have little to offer but international acrimony. As in the old regime of fixed exchange rates, the surest result would be exchange market turmoil and the revival of controls.

Finally, instead of weakening the dollar deliberately by upsetting other priorities, such as fighting inflation, the wiser course may be to let natural forces do their work. The current account deficit, and market perceptions thereof, is one pointer to a lower dollar. Another is the recent decline in U.S. interest rates and the waning of expectations that they could soon move sharply higher.

There also is a growing possibility for a basic shift in asset preferences. As economic recovery takes hold outside the United States, confidence in foreign prospects should build. Better business profits in Europe will heighten interest, for example, in German stocks. Gradually the present dollar bias of portfolio holders will lessen. Given the current account deficit, this could imply a widening of interest rate differentials. If that occurs through lower rates abroad, foreign economic recovery would benefit the more.

That recovery also will boost U.S. exports and, from late 1984 onward, begin to narrow the U.S. current account deficit. So long as the deficit is expanding it will be necessary for asset markets to provide an increasing net flow of capital to the United States. If confidence in the direction of U.S. economic policies were to erode, the consequence could be a sharp runup in interest rates. To forestall this result, and to ensure moderate and nondisruptive weakening of the dollar, the United States will need to show a convincing commitment to solving one of its own structural problems: the federal budget deficit. By 1985 the U.S. economic upswing will be two years old. For both domestic and international reasons the time will be more than ripe to tackle the budget issue. Credible plans need to be laid well before the election.

Statistical appendix

for key to data in tables
see pages 18 and 19.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers 1980-82=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	*Canada*	*Japan*	*Australia*	*France*	*Germany*	*Italy*	*United Kingdom*	*Austria*	*Belgium*	*Neth-erlands*	*Spain*	*Swit-zerland*	*Den-mark*	*Norway*	*Swe-den*
1970	113.2	118.4	69.2	115.5	111.3	66.2	224.6	146.7	80.7	91.4	81.9	142.8	51.9	112.9	92.1	119.0
1973	95.5	113.6	83.6	128.8	114.5	75.9	144.4	122.9	84.0	94.5	85.7	143.6	58.0	114.9	95.1	116.9
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.7	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1982																
October	114.9	100.8	92.4	97.0	89.7	104.4	91.9	100.5	102.7	90.3	104.9	94.5	104.4	95.4	97.5	85.5
November	115.0	101.2	95.6	97.2	90.1	104.8	91.1	97.5	103.0	90.5	105.3	92.4	104.7	96.7	98.5	82.4
December	111.3	99.5	103.0	96.7	91.6	106.7	92.1	92.9	103.8	90.8	105.7	83.9	107.3	98.2	98.2	81.2
1983																
January	109.9	100.2	106.9	97.4	92.3	107.6	93.2	80.0	104.5	91.5	106.6	82.9	101.2	99.1	97.6	81.3
February	111.0	100.5	105.9	96.8	91.9	107.0	92.6	88.2	103.6	91.0	106.2	81.9	110.3	98.6	98.0	81.1
March	112.0	100.9	105.8	89.3	90.8	108.9	91.3	86.4	104.8	92.2	106.5	80.5	108.4	98.7	97.8	81.2
April	112.5	100.4	106.4	87.5	87.7	109.1	91.3	90.2	104.4	91.5	105.1	80.1	109.9	98.7	98.7	81.5
May	112.2	100.6	107.9	88.2	86.8	108.5	90.8	92.9	104.0	90.8	104.8	79.5	110.6	97.5	99.3	81.7
June	114.3	100.8	106.6	89.4	86.4	107.6	90.7	93.6	103.4	90.2	104.6	78.3	110.6	96.2	99.5	82.2
July	115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August	117.0	101.2	106.2	91.5	85.7	106.5	89.6	94.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September	116.7	101.3	107.2	92.1	85.6	106.9	89.0	93.7	103.3	88.8	104.4	76.7	112.4	94.9	100.9	82.6
September 2	117.5	101.4	105.7	92.0	85.7	106.5	89.2	94.2	103.1	88.9	104.1	76.9	111.9	94.5	100.6	82.7
9	117.2	101.5	106.1	91.5	85.7	106.7	89.4	93.7	103.2	89.0	104.2	76.8	112.0	94.9	100.7	82.6
16	117.0	101.3	106.5	92.3	85.6	106.8	89.2	93.8	103.4	88.8	104.3	76.8	112.0	95.0	101.0	82.6
23	116.6	101.2	107.4	92.5	85.5	106.9	88.7	94.0	103.3	88.8	104.4	76.7	112.5	94.9	101.0	82.6
30	115.7	101.1	109.4	92.3	85.6	107.4	88.4	93.1	103.4	88.7	104.8	76.3	113.2	94.8	101.0	82.5
October 7	114.8	101.1	110.9	92.5	85.4	108.2	88.6	91.5	103.6	88.7	105.2	76.0	113.7	95.1	100.8	82.9
14	114.8	101.0	110.7	93.4	85.3	107.8	88.6	92.5	105.7	88.7	105.0	75.9	113.0	95.2	100.9	82.3
21	114.6	101.0	110.7	93.7	85.5	108.3	88.6	92.0	103.8	88.7	105.0	76.0	113.3	95.1	100.8	82.2

Real effective exchange rates

Index numbers 1980-82=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	*Canada*	*Japan*	*Australia*	*France*	*Germany*	*Italy*	*United Kingdom*	*Austria*	*Belgium*	*Neth-erlands*	*Spain*	*Swit-zerland*	*Den-mark*	*Norway*	*Swe-den*
1970	116.3	104.4	87.7	96.1	99.5	98.8	118.0	79.3	90.2	120.7	98.2	67.8	75.2	110.0	93.0	103.7
1973	91.7	110.7	108.4	104.9	103.5	108.3	109.6	71.5	93.7	118.4	103.8	75.8	88.9	110.1	100.2	102.5
1980	89.5	99.6	103.1	93.1	102.2	103.5	103.5	99.2	100.2	107.5	100.0	102.0	98.7	103.7	96.4	101.3
1981	100.7	100.0	104.7	102.8	100.2	97.4	98.7	101.9	99.1	100.3	97.7	99.1	98.8	99.3	101.2	102.1
1982	109.8	100.4	92.3	104.1	97.6	99.1	97.8	98.9	100.7	92.1	102.4	99.0	102.5	96.9	102.4	96.5
1982																
October	115.2	101.3	85.1	102.8	95.3	99.6	97.3	101.4	100.8	90.1	103.6	100.6	101.5	98.3	98.3	91.0
November	115.6	101.1	87.8	102.7	95.2	99.5	97.8	98.7	100.9	90.3	103.7	99.3	101.4	98.9	99.2	89.1
December	111.9	99.5	94.2	102.4	97.1	100.7	99.1	95.0	102.2	91.0	103.4	91.7	102.9	100.0	99.2	88.0
1983																
January	109.6	100.8	97.8	103.8	97.4	101.2	101.4	92.6	103.1	91.7	104.6	91.5	96.8	101.0	98.9	89.2
February	110.2	101.4	96.8	103.7	98.4	99.8	99.9	90.7	102.5	92.8	103.6	91.5	105.3	100.8	100.0	88.6
March	110.6	102.7	96.5	96.3	97.7	101.2	98.8	89.2	103.8	94.1	103.6	90.4	103.7	101.0	99.3	88.7
April	110.5	103.0	96.1	94.8	96.3	101.1	98.4	93.3	102.6	93.1	101.8	90.6	104.8	100.9	100.3	89.4
May	110.4	103.2	96.9	95.6	95.0	100.4	98.0	96.4	101.8	92.4	101.5	90.6	105.3	100.0	101.4	90.1
June	112.6	103.6	95.3	96.8	94.8	99.6	97.8	97.0	101.2	91.5	101.3	89.7	105.3	98.5	100.8	91.3
July	113.5	103.6	95.3	97.5	95.7	98.8	97.6	96.5	101.6	90.7	101.0	88.1	105.9	97.4	101.3	92.3
August	115.5	103.7	93.8	99.7	95.5	98.7	96.5	97.0	100.8	89.8	100.3	88.2	106.2	96.0	101.2	93.0
September	115.4	103.8	94.0	100.6	95.9	99.0	95.6	96.8	100.7	89.2	100.4	88.3	106.0	96.2	101.6	93.2

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, Singapore, and United States international banking facilities
billions of dollars (rounded to nearest $5 billion), at end of period

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	
										Mar	Sep[p]
Estimated size											
Gross	395	485	595	740	950	1 235	1 525	1 860	2 050	2 070	2 040
Liabilities to nonbanks	80	90	115	145	190	260	350	460	505	510	n.a.
Liabilities to central banks	60	65	80	100	115	145	150	130	90	90	n.a.
Liabilities to other banks[a]	255	330	400	495	645	830	1 025	1 270	1 455	1 470	n.a.
Net	220	255	320	390	495	590	730	890	960	965	970
Claims on nonbanks	105	130	165	210	265	330	425	530	595	600	n.a.
Claims on central banks and on banks outside market area[b]	95	105	130	150	185	200	230	275	270	265	n.a.
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	25	30	45	60	75	85	95	100	n.a.
Eurodollars as % of gross liabilities in all Eurocurrencies	76	78	80	76	74	72	75	78	79	80	n.a.

[a] Includes unallocated liabilities
[b] Includes unallocated claims
[c] In European market area only
[r] revised
[p] preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Eurodollar:											
overnight	19.25	12.87	9.25	8.63	9.13	8.75	8.88	9.50	8.75	9.38	9.25
7-day fixed	19.75	13.00	9.25	8.63	9.25	8.75	8.88	9.50	9.44	9.50	9.38
one month	19.12	13.31	9.13	8.56	9.44	8.94	9.13	9.50	9.81	9.88	9.38
three months	17.55	13.75	9.19	8.75	9.63	8.88	9.44	9.69	10.19	10.25	9.50
six months	16.37	14.81	9.50	8.88	9.75	9.06	9.63	9.94	10.63	10.63	9.69
twelve months	14.87	14.75	9.63	9.13	9.94	9.25	9.81	10.06	10.75	10.94	10.00
Euromark:											
one month	8.87	10.44	5.88	5.38	4.81	4.88	4.94	4.94	4.81	5.25	5.56
three months	8.87	10.50	5.88	5.25	4.94	5.00	5.06	5.19	5.06	5.50	5.75
six months	8.87	10.56	5.94	5.38	5.13	5.06	5.25	5.50	5.50	5.94	5.88
twelve months	8.93	10.25	6.00	5.50	5.38	5.31	5.69	5.94	5.94	6.44	6.19
Euro-Swiss franc:											
one month	6.00	8.87	2.81	2.88	3.81	4.31	4.75	4.56	4.69	4.19	3.69
three months	6.00	9.25	3.25	3.00	3.88	4.38	4.75	4.63	4.75	4.44	4.13
six months	5.75	9.25	3.44	3.38	3.88	4.38	4.75	4.75	4.88	4.81	4.31
twelve months	5.50	8.50	3.44	3.63	3.94	4.38	4.63	4.69	4.81	4.94	4.38
Eurosterling:											
one month	14.75	15.37	10.56	11.38	10.75	10.25	10.25	9.63	9.56	9.56	9.63
three months	14.75	15.69	10.44	11.25	10.69	10.19	10.25	9.63	9.81	9.75	9.56
six months	14.25	15.69	10.31	13.19	10.63	10.06	10.25	9.88	10.25	10.13	9.56
twelve months	14.00	15.37	10.31	10.75	10.56	10.00	10.31	10.06	10.50	10.50	9.81
Euro-French franc:											
one month	11.12	15.75	23.00	21.50	12.13	12.38	12.50	12.38	12.13	13.00	12.75
three months	11.75	17.00	24.00	23.00	12.31	12.88	13.38	14.94	13.50	15.00	14.31
six months	12.25	18.00	22.00	21.25	13.75	14.38	15.75	16.69	15.25	16.75	15.81
twelve months	12.87	18.25	19.75	18.38	15.00	16.00	17.25	18.00	16.75	16.88	16.19
Euroyen:											
one month	9.12	6.12	6.75	6.69	6.38	6.13	6.31	6.44	6.44	6.69	6.69
three months	9.25	6.12	6.75	6.63	6.38	6.19	6.31	6.50	6.50	6.63	6.69
six months	9.62	6.87	6.81	6.50	6.38	6.19	6.31	6.50	6.56	6.63	6.69
twelve months	9.37	6.87	6.81	6.56	6.44	6.38	6.38	6.50	6.56	6.75	6.69

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	*1981*	*1982*	*1983*			*Jan-Sep*	
				Jul	*Aug*	*Sep*	*1983*	*1982*
Industrial countries	**39 100**	**86 022**	**42 775**	**1 820**	**3 020**	**2 476**	**25 137**	**35 956**
Australia	2 475	1 680	4 721	388	229	325	2 223	3 986
Canada	1 743	4 112	3 838	—	—	—	200	3 335
Denmark	1 720	1 661	789	—	—	—	1 586	770
France	1 745	3 912	5 653	—	18	75	1 423	5 402
Greece	1 333	1 039	770	250	39	—	836	750
Ireland	237	1 361	401	75	—	—	621	374
Italy	6 268	6 030	3 657	134	134	452	2 311	2 982
Norway	685	713	2 069	—	—	13	349	1 769
Portugal	745	1 590	1 388	—	—	—	300	1 116
Spain	5 457	3 242	1 849	60	220	98	2 282	1 242
Sweden	1 370	1 867	649	—	750	75	3 175	425
United Kingdom	1 470	747	1 635	73	350	—	953	819
United States	6 719	54 784	6 566	719	1 040	1 300	5 712	5 156
Other[a]	7 133	3 284	8 790	121	240	138	3 166	7 830
Developing countries	**35 054**	**45 264**	**41 515**	**1 875**	**2 207**	**3 524**	**30 891**	**34 003**
Non-OPEC countries	24 009	33 394	28 733	1 251	2 127	3 347	24 961	23 716
Argentina	2 506	2 534	1 565	—	1 500	—	1 750	465
Brazil	4 158	5 751	5 716	—	—	—	4 475	4 303
Chile	1 322	2 204	1 194	19	—	—	1 319	889
Colombia	608	1 030	741	225	—	152	477	671
Korea	1 917	2 824	2 923	164	199	995	2 747	2 338
Malaysia	—	1 725	1 909	—	—	60	935	1 822
Mexico	5 971	7 530	7 953	—	—	—	5 100	7 485
Peru	480	1 407	1 069	—	—	5	471	1 029
Philippines	1 056	1 257	635	30	—	—	715	528
Taiwan	314	928	255	—	190	—	536	255
Other	5 677	6 204	4 773	813	238	2 135	6 436	3 931
OPEC countries	11 045	11 870	12 782	624	80	177	5 930	10 287
Ecuador	1 209	934	815	431	—	—	431	815
Indonesia	1 435	725	1 250	—	20	—	1 166	685
Nigeria	1 330	1 802	2 042	78	25	22	1 836	1 893
United Arab Emirates	101	363	93	—	25	81	821	93
Venezuela	6 715	7 559	6 799	—	—	—	237	5 835
Other	255	497	1 783	115	10	74	1 439	966
Communist countries	**2 809**	**1 791**	**765**	**230**	**9**	—	**937**	**672**
China	181	370	43	10	—	—	10	—
East Germany	303	470	8	—	—	—	392	—
Hungary	550	550	340	170	—	—	408	290
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	50	9	—	127	382
International organizations[c]	**429**	**302**	**150**	—	—	—	**1 321**	**150**
TOTAL	**77 392**	**133 379**	**85 205**	**3 925**	**5 236**	**6 000**	**58 286**	**70 781**

[a] Includes multinational organizations **[b] Includes COMECON institutions** **[c] Includes regional development organizations** ***p* preliminary**
***r* revised**

International bond yields

long-term issues, at or near end of month

	1980	*1981*	*1982*	*1983*						
	Dec	*Dec*	*Dec*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*
U.S. companies:											
U.S. dollar	11.76	12.70	11.28	10.24	10.09	9.90	10.03	9.98	10.06	10.15	10.23
Swiss franc	7.27	7.30	5.76	5.72	5.66	5.71	5.88	5.86	5.83	5.84	5.78
European companies:											
U.S. dollar	12.42	14.29	12.45	11.37	11.37	11.17	11.18	11.33	11.48	11.47	11.51
German mark	8.79	9.36	8.17	7.98	7.49	7.16	n.a.	n.a.	7.69	7.66	7.56
Governments:											
U.S. dollar	11.83	13.59	12.51	11.25	11.17	11.09	11.22	11.24	11.51	11.58	11.75

*New international bond issues**

new issues in period, in millions of dollars

	1980	1981	1982	1983			Jan-Sep	
				Jul	Aug	Sep	1983	1982
By type:								
Eurobonds, total	**23 970**	**31 616**	**50 308**	**3 032**	**2 076**	**4 480**	**36 505**	**40 142**
by category of borrower								
U.S. companies	4 107	6 178	12 596	343	95	684	4 282	11 311
Foreign companies	9 032	12 882	13 231	1 263	633	959	12 194	9 361
State enterprises	5 839	7 496	13 481	163	900	1 545	10 147	11 059
Governments	3 045	2 629	7 624	576	155	806	4 890	5 667
International organizations	1 947	2 431	3 376	667	293	486	4 992	2 744
by currency of denomination								
U.S. dollar	16 427	26 830	42 873	2 075	1 498	3 720	29 206	34 834
German mark	3 607	1 277	2 487	311	95	180	3 273	1 909
Dutch guilder	1 043	529	645	69	58	33	485	524
Canadian dollar	279	634	1 181	81	114	61	753	1 038
European composite units	65	309	1 827	166	128	171	1 330	934
Other	2 549	2 037	1 295	330	183	315	1 458	903
Foreign bonds outside the United States, total	**14 521**	**13 817**	**19 879**	**1 412**	**1 375**	**1 688**	**18 018**	**16 199**
by category of borrower								
U.S. companies	307	592	1 971	163	167	138	1 056	1 781
Foreign companies	3 157	3 384	4 184	435	455	602	6 568	3 161
State enterprises	2 830	3 701	5 429	220	393	148	3 366	4 463
Governments	4 086	2 762	3 494	136	133	456	2 677	2 933
International organizations	4 141	3 378	4 801	458	227	344	4 351	3 861
by currency of denomination								
German mark	4 839	1 310	2 745	139	149	75	2 281	2 283
Swiss franc	7 617	8 285	11 129	1 015	796	1 248	11 502	8 971
Dutch guilder	259	481	957	—	33	33	781	748
Japanese yen	1 088	2 457	3 418	229	347	165	2 710	2 809
Other	718	1 284	1 630	29	50	167	743	1 231
Foreign bonds in the Unites States, total	**3 429**	**7 552**	**5 946**	**415**	**252**	**170**	**3 435**	**5 147**
by category of borrower								
Canadian entities	2 136	4 630	3 180	—	252	—	1 445	3 031
International organizations	550	1 375	1 700	—	—	120	1 020	1 450
Other	743	1 547	1 066	415	—	50	970	666
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**61 518**	**3 082**	**3 026**	**5 006**	**45 568**	**49 599**
Australia	539	991	2 167	426	26	100	1 419	1 925
Austria	1 859	1 557	1 668	26	137	—	1 052	1 524
Canada	3 797	10 648	11 759	203	421	775	5 406	10 502
Denmark	1 125	695	1 019	—	150	537	1 648	895
Finland	392	672	815	47	93	33	733	588
France	2 820	3 156	7 402	117	557	815	6 643	6 034
Italy	904	1 108	2 263	41	55	170	654	1 516
Japan	5 309	6 928	8 213	954	798	818	11 031	6 037
Netherlands	1 585	630	865	169	25	53	770	461
New Zealand	293	1 107	1 375	—	7	105	560	877
Norway	892	530	832	60	34	27	390	582
Sweden	3 244	2 050	2 729	96	75	46	2 400	1 862
United Kingdom	1 733	1 408	1 281	—	28	208	869	512
United States	5 587	6 770	14 567	506	262	822	5 338	13 092
Developing countries	**2 485**	**4 769**	**4 930**	**652**	**107**	**382**	**1 952**	**3 969**
Non-OPEC countries	1 942	4 338	3 890	652	66	132	1 606	3 104
Brazil	349	60	91	—	—	—	—	73
Korea	68	323	172	50	—	80	475	122
Mexico	544	3 012	1 919	—	—	—	—	1 919
OPEC countries	543	431	1 040	—	41	250	345	865
Venezuela	398	291	385	—	—	—	—	385
Communist countries	**65**	**75**	**65**	**—**	**50**	**—**	**75**	**65**
International organizations	**6 638**	**7 163**	**9 677**	**1 125**	**520**	**950**	**10 363**	**7 885**
TOTAL	**41 920**	**52 985**	**76 133**	**4 859**	**3 703**	**6 338**	**57 958**	**61 488**

***Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.**

Central bank discount rates

	1979	*1980*	*1981*	*1982*	*1983*			*Current*	
	end Dec	*end Dec*	*end Dec*	*end Dec*	*end Mar*	*end Jun*	*end Sep*	*Oct 21 1983*	*effective since*
United States	12.00	13.00	12.00	8.50	8.50	8.50	8.50	8.50	Dec 15, 82
Canada	14.00	17.36	14.66	10.05	9.42	9.42	9.49	9.45	Oct 20, 83
Japan	6.25	7.25	5.50	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	17.00	14.00	14.37	10.00	10.56	9.50	9.50	9.00	Oct 4, 83
Belgium	10.50	12.00	15.00	11.50	11.00	9.00	9.00	9.00	Jun 23, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	6.00	7.50	7.50	5.00	4.00	4.00	4.00	4.00	Mar 18, 83
Italy	15.00	16.50	19.00	18.00	18.00	17.00	17.00	17.00	Apr 9, 83
Netherlands	9.50	8.00	9.00	5.00	3.50	4.50	5.00	5.00	Sep 9, 83
Austria	3.75	6.75	6.75	4.75	3.75	3.75	3.75	3.75	Mar 18, 83
Denmark	11.00	11.00	11.00	10.00	8.50	7.50	7.50	7.50	Apr 21, 83
Finland	8.50	9.25	9.25	8.50	8.50	8.50	9.50	9.50	July 1, 83
Ireland	16.40	12.75	17.15	14.35	14.35	13.80	13.00	13.00	July 1, 83
Norway	9.00	9.00	9.00	9.00	9.00	9.00	8.00	8.00	Jun 6, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.00	12.00	11.00	10.00	9.00	8.50	8.50	8.50	Apr 8, 83
Switzerland	2.00	3.00	6.00	4.50	4.00	4.00	4.00	4.00	Mar 18, 83
Argentina	89.90	87.01	98.50	128.54	128.54	128.54	183.75	183.75	Sep 5, 83
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	7.00	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	11.00	13.00	14.00	13.00	13.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	*1981*	*1982*	*1983*							
	Dec	*Dec*	*Dec*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*
United States	18.90	12.37	8.95	8.51	8.77	8.80	8.63	8.98	9.37	9.58	9.41
Canada	15.61	14.53	10.63	9.60	9.40	9.41	9.28	9.45	9.31	9.35	9.25
Japan	9.49	6.70	6.92	6.57	6.69	6.30	6.08	6.20	6.39	6.46	6.15
Australia	9.51	12.84	11.04	10.70	10.61	11.15	11.16	10.87	9.84	10.13	9.80
United Kingdom	13.00	9.13	6.70	10.81	7.50	7.63	6.00	6.63	6.60	6.31	7.30
Belgium	9.68	12.78	9.43	9.97	11.82	9.83	7.45	7.68	7.49	7.61	6.38
France	10.87	15.46	12.88	12.77	12.84	12.55	12.46	12.61	12.40	12.54	12.87
Germany	9.13	10.65	6.07	5.70	5.49	4.93	5.00	5.05	5.04	5.07	n.a.
Italy	17.50	20.63	19.00	19.00	19.00	18.00	18.00	17.80	17.75	17.86	17.69
Netherlands	8.37	10.67	5.31	4.96	4.41	5.18	5.22	5.06	5.29	5.77	5.68
Austria	11.50	7.50	6.00	5.88	5.38	4.88	4.38	4.50	5.00	5.00	5.50
Finland	12.50	11.30	11.50	12.00	13.00	13.00	15.00	15.00	15.00	15.00	16.67
Ireland	13.31	16.88	14.54	13.94	17.63	15.25	14.38	13.62	13.75	12.50	12.63
Norway	11.00	18.60	11.00	11.25	12.25	12.25	12.75	12.00	12.00	12.70	12.30
Spain	16.74	18.73	20.30	17.20	17.68	20.38	21.01	20.10	21.05	23.33	19.85
Sweden	11.41	13.82	8.63	10.55	11.20	11.00	11.00	11.05	11.00	10.15	11.30
Switzerland	5.75	3.38	1.25	1.50	3.13	3.88	3.88	3.00	3.00	2.00	2.00
Argentina	70.84	84.93	155.32	159.38	180.22	196.18	162.81	170.43	210.04	106.40	173.90
Brazil	62.71	103.74	150.42	125.22	164.70	266.06	220.06	n.a.	n.a.	n.a.	n.a.
Hong Kong	14.05	10.75	9.13	10.40	9.63	10.40	11.38	12.38	7.00	6.81	n.a.
Korea	14.82	14.40	13.84	13.30	13.70	13.60	13.40	13.40	12.70	12.70	12.80
Philippines	15.70	14.70	16.12	14.29	14.58	10.93	13.55	13.05	13.59	15.56	n.a.
Singapore	10.23	3.96	11.45	5.88	6.04	9.96	6.63	5.96	8.08	6.33	6.51
South Africa	5.60	12.34	12.90	9.57	8.25	9.71	9.73	10.91	12.29	13.62	13.43
Eurodollars	19.22	12.29	9.15	8.73	8.86	8.90	8.71	9.07	9.42	9.52	9.42

Treasury bill rates

bond-equivalent yields, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	14.87	11.90	8.15	8.03	8.93	8.34	8.75	9.02	9.50	9.52	9.05
Canada	17.01	14.41	9.80	9.23	9.17	9.12	9.25	9.17	9.24	9.32	9.24
Japan	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	12.17	13.27	9.39	14.95	14.11	11.14	11.83	11.93	10.59	10.96	10.34
United Kingdom	13.45	15.31	9.90	10.73	10.41	9.75	9.68	9.29	9.40	9.57	9.21
Belgium	12.75	16.00	12.25	12.25	12.00	10.35	10.00	9.50	9.25	9.25	9.25
Ireland	12.84	17.35	14.70	13.76	14.39	13.81	14.01	12.95	13.09	13.01	12.12
Italy	16.87	21.36	19.11	19.09	18.88	18.27	17.65	17.35	17.35	17.24	n.a.
Netherlands	8.00	9.75	5.63	5.00	4.50	6.50	5.63	4.63	5.38	6.00	5.88
Spain	17.20	15.83	16.96	16.99	16.56	18.11	21.67	21.52	22.53	22.93	22.24
Sweden	12.87	9.20	8.18	7.14	7.13	7.13	7.13	7.12	7.12	7.13	7.13
Korea	16.35	16.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Mexico	27.73	33.22	57.44	60.90	64.24	62.85	63.04	62.36	61.10	n.a.	n.a.
New Zealand	11.25	11.25	11.25	11.25	11.25	12.00	12.00	12.00	7.80	n.a.	n.a.
Philippines	12.74	13.40	14.53	14.54	14.55	14.54	14.49	14.00	14.03	14.48	n.a.
Singapore	6.77	3.03	2.74	3.07	2.59	2.59	2.51	2.61	2.59	2.58	2.65
South Africa	6.31	14.55	14.62	9.79	11.35	11.53	11.81	13.96	14.46	16.19	14.50

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	17.62	12.78	8.81	8.30	9.34	8.56	8.63	9.34	9.57	9.52	9.36
Canada	17.50	15.25	9.95	9.40	9.45	9.45	9.50	9.45	9.40	9.50	9.40
Japan	9.80	6.30	6.80	6.69	6.57	6.20	6.36	6.47	6.59	6.61	6.62
Australia	13.00	16.00	10.65	16.00	16.25	12.90	13.00	13.85	12.10	12.20	11.15
United Kingdom	14.75	15.69	10.50	11.31	10.69	10.19	10.25	9.75	10.06	9.75	9.56
Belgium	13.10	16.00	12.35	12.25	12.25	10.45	10.00	9.50	9.25	9.25	9.25
France	11.56	15.25	12.75	12.94	12.70	12.31	12.44	12.50	12.13	12.25	12.50
Germany	10.20	10.50	6.20	5.68	5.30	5.18	5.25	5.55	5.50	5.85	5.80
Ireland	13.63	18.50	15.75	13.94	15.25	15.25	14.75	13.63	13.88	13.38	12.69
Italy	17.37	21.00	19.00	19.00	19.00	17.75	17.75	17.50	17.50	17.60	17.50
Netherlands	9.37	11.00	5.25	4.50	4.25	6.00	6.13	5.38	5.69	5.31	6.25
Spain	17.40	15.52	16.55	16.82	15.86	18.91	21.57	20.76	22.48	24.04	22.06
Switzerland	7.50	10.12	3.88	3.25	4.00	4.50	4.75	4.81	4.85	4.44	4.25
Hong Kong	17.69	14.18	10.13	8.50	9.50	10.06	11.50	12.88	9.88	8.94	12.75
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	14.25	16.05	16.75	14.00	14.00	14.00	16.00	16.75	12.75	n.a.	n.a.
Philippines	15.01	17.61	15.91	15.90	15.78	14.34	15.57	15.06	15.96	15.62	n.a.
Singapore	14.12	7.81	8.69	7.06	6.56	7.38	7.56	7.81	7.88	7.38	7.38
South Africa	7.12	15.47	15.26	10.41	12.11	12.16	12.21	14.88	14.94	16.61	16.45

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	16.25	12.62	8.25	8.35	9.15	8.40	8.88	9.18	9.65	9.65	9.20
Canada	17.00	15.20	9.85	9.35	9.40	9.35	9.40	9.35	9.35	9.45	9.35
Japan	9.00	6.50	7.00	6.86	6.98	6.40	6.60	6.67	6.80	6.83	6.88
Australia	12.71	15.65	10.20	15.07	15.48	12.82	12.68	14.84	12.05	11.88	10.56
United Kingdom	14.87	15.69	10.31	11.25	10.75	10.19	10.28	n.a.	10.06	9.78	9.50
Belgium	12.63	15.50	12.25	12.25	12.88	10.38	10.13	9.25	9.13	9.25	9.50
France	11.25	9.16	8.24	8.24	8.24	8.24	8.24	8.24	8.24	7.30	7.80
Germany	8.00	9.50	6.00	5.10	4.75	4.75	4.85	4.90	4.90	4.90	5.63
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	9.50	11.00	5.38	4.50	4.25	6.13	6.25	5.50	5.63	5.25	6.13
Austria	11.25	9.63	6.25	6.00	5.50	5.25	4.69	5.00	5.31	5.56	6.06
Denmark	10.00	10.00	9.00	9.00	7.50	6.50	6.50	6.50	6.50	6.50	6.50
Finland	5.00	5.00	4.25	4.25	4.25	4.25	4.25	4.25	5.25	5.25	5.25
Ireland	13.63	18.38	15.25	13.75	15.13	14.75	14.50	13.25	13.50	13.13	12.25
Norway	11.00	12.75	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Spain	4.50	11.78	12.53	12.42	11.98	12.30	12.36	12.47	12.28	12.28	n.a.
Sweden	9.75	10.25	9.50	8.50	8.50	8.00	8.00	8.00	8.00	8.00	8.00
Switzerland	7.50	8.75	3.00	2.00	2.75	3.50	3.75	4.25	4.00	3.75	3.75
Argentina	72.00	86.76	103.42	121.66	121.66	121.66	121.66	108.28	127.75	139.92	176.41
Brazil	96.49	110.05	118.26	117.61	119.29	128.81	137.28	n.a.	n.a.	n.a.	n.a.
Hong Kong	13.00	12.50	7.50	7.50	7.50	8.50	11.00	10.50	8.50	8.50	12.00
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	26.15	31.81	52.54	59.90	60.27	60.46	60.35	60.03	59.25	n.a.	n.a.
New Zealand	13.50	15.50	16.50	13.00	12.75	12.75	14.75	16.50	10.00	n.a.	n.a.
Philippines	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	13.19	7.50	8.25	6.75	6.19	6.88	7.07	7.01	7.44	6.88	6.81
South Africa	7.87	14.75	15.25	10.63	12.00	12.25	12.35	14.75	14.95	16.62	17.00
Venezuela	16.00	14.75	15.50	16.50	16.00	16.00	15.00	14.00	n.a.	n.a.	n.a.

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	21.50	15.75	11.50	10.50	10.50	10.50	10.50	10.50	10.50	11.00	11.00
Canada	18.25	16.50	12.50	11.50	11.50	11.00	11.00	11.00	11.00	11.00	11.00
Japan	8.16	6.95	6.28	6.27	6.27	6.26	6.26	6.25	6.25	6.25	6.25
Australia	13.50	15.75	15.00	14.00	16.00	15.75	15.00	16.00	14.50	14.50	14.00
United Kingdom	15.00	14.50	10.00	11.00	10.50	10.00	10.00	9.50	9.50	9.50	9.50
Belgium	15.75	18.00	15.50	15.50	15.00	14.00	14.00	13.25	12.50	12.50	12.50
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Italy	20.50	22.50	20.75	20.00	20.00	19.50	18.75	18.75	18.75	18.75	18.75
Netherlands	10.75	12.00	6.25	6.00	5.00	5.75	6.25	6.25	6.25	6.75	7.00
Austria	12.50	13.50	11.75	11.00	11.00	9.75	9.75	9.25	9.25	9.25	9.25
Denmark	13.75	15.00	14.00	14.00	12.00	11.00	11.00	10.50	10.50	10.50	10.50
Finland	9.83	9.84	8.95	8.97	8.95	8.97	9.00	9.07	10.07	10.10	n.a.
Ireland	14.50	17.25	16.50	16.50	17.50	16.25	16.25	15.00	15.00	15.00	13.75
Norway	12.50	13.75	14.50	14.50	14.50	14.50	14.50	14.50	14.00	14.00	14.00
Spain	18.50	17.04	19.00	18.48	17.65	19.27	22.40	22.73	23.47	25.19	24.09
Sweden	11.75	13.50	12.50	11.50	11.50	11.00	11.00	11.00	11.00	11.00	11.00
Switzerland	5.75	8.00	6.00	6.00	5.50	5.50	5.50	5.50	6.00	6.00	6.00
Argentina	77.00	92.60	109.50	133.83	133.83	175.00	170.00	184.00	240.00	152.08	188.58
Brazil	96.45	138.09	166.49	181.18	190.83	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	17.00	16.00	10.50	10.50	10.50	11.50	11.50	13.50	11.50	11.50	16.00
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	24.25	31.81	46.12	54.24	56.16	57.21	58.14	58.63	58.73	58.23	57.78
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	n.a.
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	13.60	11.83	9.33	9.25	9.10	9.03	9.03	8.88	9.00	9.00	8.95
South Africa	9.50	17.00	18.00	16.00	14.00	14.00	14.00	16.00	16.00	18.00	18.00
Venezuela	15.00	15.50	17.00	18.00	17.50	17.50	17.00	17.00	n.a.	n.a.	n.a.

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	11.46	14.33	10.61	10.57	10.85	10.52	10.91	11.20	11.95	11.77	11.65
Canada	12.69	15.27	11.69	11.80	11.70	11.18	11.30	11.56	12.03	12.34	11.76
Japan	9.04	8.32	7.76	8.07	7.80	7.77	7.80	7.78	7.87	7.80	7.58
Australia	13.00	15.00	13.00	14.75	15.00	13.85	14.80	15.10	15.00	14.60	14.40
United Kingdom	13.05	15.02	10.62	10.88	10.52	10.28	10.10	10.12	10.71	10.65	10.15
Belgium	13.04	13.99	12.66	12.60	12.49	11.59	11.63	11.53	11.42	11.46	11.39
France	14.31	16.44	15.40	14.25	14.65	14.55	14.55	14.52	14.04	13.96	14.03
Germany	9.19	9.71	7.90	7.71	7.61	7.74	8.09	8.11	8.27	8.55	8.43
Italy	16.23	21.39	19.62	19.24	18.76	18.11	18.13	18.22	18.42	18.11	n.a.
Netherlands	10.48	11.28	8.16	8.06	8.19	8.83	9.30	9.00	9.08	9.03	8.80
Austria	9.62	10.37	8.81	8.24	8.18	8.09	8.07	8.14	8.18	8.31	n.a.
Denmark	19.98	20.91	20.14	15.89	15.16	14.27	14.34	15.54	15.63	14.97	n.a.
Finland	10.42	10.98	10.64	10.70	10.59	10.58	10.69	10.55	10.58	11.20	10.97
Ireland	15.63	18.28	14.54	14.26	13.96	13.62	13.51	13.61	13.81	13.60	13.72
Norway	10.44	12.37	13.32	13.00	13.00	12.75	12.75	12.50	12.50	12.50	12.50
Spain	16.15	16.20	15.92	15.99	16.47	17.05	17.31	17.63	17.60	18.31	n.a.
Sweden	12.61	12.80	13.01	12.83	12.59	12.22	12.14	12.17	11.85	11.24	n.a.
Switzerland	4.63	5.40	4.22	4.23	4.46	4.42	4.51	4.59	4.76	4.73	4.71
New Zealand	12.99	12.55	12.84	12.95	12.69	13.95	14.00	n.a.	n.a.	n.a.	n.a.
Philippines	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	11.81	13.62	11.31	11.40	12.17	12.26	12.85	14.15	13.27	13.16	12.93
Venezuela	7.39	12.50	15.00	15.00	15.50	15.75	15.75	15.75	n.a.	n.a.	n.a.

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	13.00	15.50	11.75	11.53	11.63	11.00	11.75	11.75	12.75	12.50	12.25
Canada	13.62	16.48	13.05	12.99	12.92	12.29	12.59	12.47	13.09	13.24	12.63
Japan	8.60	7.70	7.55	7.26	7.39	7.37	7.16	7.30	7.34	7.32	7.30
Australia	14.25	16.50	15.00	16.00	16.25	16.00	16.00	16.00	15.75	15.50	15.00
United Kingdom	14.21	16.55	12.34	12.69	12.34	12.14	12.12	11.89	12.34	12.27	11.89
France	15.23	17.33	15.91	15.12	15.03	14.87	14.85	14.86	14.76	14.48	n.a.
Germany	9.50	10.50	8.20	7.70	7.60	7.30	7.40	7.90	8.00	8.10	8.30
Netherlands	10.71	11.03	7.80	7.92	7.86	8.65	8.91	8.79	8.75	8.79	8.68
Norway	11.24	13.36	14.13	13.75	13.75	13.50	13.50	13.25	13.25	12.25	13.25
Spain	14.82	14.76	17.10	16.72	17.02	17.22	16.77	16.86	18.00	19.59	n.a.
Sweden	11.95	12.94	13.37	13.06	13.34	12.85	12.89	12.79	12.85	12.77	12.99
Switzerland	5.63	6.60	5.92	5.88	5.93	5.98	5.94	6.06	6.10	6.21	6.43
Korea	28.20	27.00	15.90	15.00	14.40	14.00	13.90	13.90	13.90	13.90	14.20
Venezuela	16.15	17.00	18.00	18.00	18.00	18.25	18.00	18.00	n.a.	n.a.	n.a.

Key to data in tables

I. International markets

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

Categories of borrower

U.S. companies include both parent companies and their financing affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Country of borrower

The country of the borrower is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

International bond yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield.

The yield indices are simple arithmetic averages of end-of-month secondary market yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers. Occasionally the individual issues in each category are changed.

The number of issues represented in each of the indices is as follows:

Long-Term, U.S. companies, U.S. dollar — —ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc — four foreign bond issues.

Long-term, European companies, U.S. dollar — ten Euro-bond issues.

Long-term, European companies, German mark — ten Euro-bond issues.

Long-term, governments, U.S. dollar — six Euro-bond issues (governments of Italy, Denmark, and France).

Euro-currency deposit rates

All data are prime banks' bid rates for deposits in London. Offer rates commonly used as a basis for Euro-dollar lending are generally .125% above bid rates.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — overnight financing of Treasury bills (LTN) until November 1978. New series as of December 1978, rates paid for federal funds.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Euro-dollars — prime banks' bid rate for overnight money.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

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Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

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Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit.

Sweden — new issues of 3-month Treasury bills.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

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Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

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Canada — 3-month time deposits.

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Finland — time deposits of six-month notice.

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Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

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Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

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